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THE ROYAL COMMISSION ON TAXATION

Hearing held in the Centre Court
Room, Exchequer Court of Canada,
Supreme Court Building, Welling-
ton Street, Ottawa, On Thursday,
the 14th day of November, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S. M. MILNE

MR. CHARLES WALLS

LEGAL COUNSEL

MR. J. L. STEWART

RESEARCH DIRECTOR:

PROF. D. G. HARTLE

SECRETARY:

MR. G. L. BENNETT



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* * * * *



C O R R I G E N D U M

Please note the following corrections to be made to the transcript of the hearing of the Royal Commission on Taxation, which took place in Ottawa, Ontario, on the 7th day of October, 1963.

* * * * *

Page 3724 3rd Line For "Section 23A" read "Section 83A".

Page 3727 Lines 19 and 20 For "people who are" read "properties which are".

Page 3729 Line 26 For "industries" read "expenses".

Page 3732 Line 22 The sentence "I think the other companies follow generally the practice of our company, which is to charge exploration and dryhole costs to capital productive oil costs." should read as follows: "I think the other companies follow the practice of our Company, which is to charge exploration and dry hole costs to expense and to capitalize productive well costs."

Page 3733 Line 26 For "purchasing" read "producing".
Line 28 Read "it would start to lose depletion".

Page 3734 Line 28 For "less 33/34 of tax" read "less 33-1/3% tax".

Page 3735 Line 2 For "33/33" read "33-1/3%".

Page 3735 Line 19)

Page 3736 Line 11)

Page Line 24)

Line 25)

Line 30)

Page 3737 Line 21) For "growth" read "gross".

Line 23)

Line 24)

Line 28)

Page 3738 Line 13)

Page 3752 Line 1)

Line 9)

Page 3755 Line 12 For "I think a move of that kind certainly did take to all members of the industry how they spent their money." read "I think a move of that kind would certainly dictate to all members of the industry how they spent their money".

* * * * *



MR/ND

1 ---UPON COMMENCING AT 9:30 A.M.

2 THE CHAIRMAN: Mr. Secretary, I think we can
3 commence.

4 THE SECRETARY: Mr. Chairman and Commissioners,
5 the brief before you this morning is being presented
6 by the Electronic Industries Association of Canada. Mr.
7 David Knapp and his associates are here this morning
8 to speak to the brief. Mr. Knapp is president. He
9 wishes to make a few opening remarks and introduce his
10 colleagues.

11 I would like to enter this brief into the
12 record as Exhibit 260.

13 ---EXHIBIT NO. 260: Brief of the Electronic
14 Industries Association of
15 Canada.

16 SUBMISSION OF

17 ELECTRONIC INDUSTRIES ASSOCIATION OF CANADA

18 Appearances: Mr. David Knapp
19 Mr. D. C. Marrs
20 Mr. E. L. Gardner
21 Mr. J. R. Dunn
22 Mr. Cowan Harris

23 THE CHAIRMAN: Thank you Mr. Secretary. Good
24 morning Mr. Knapp and gentlemen. We are glad to see
25 you indeed. We have read your submission with interest,
26 and I would present to you the Commissioners whose names
27 are all here and I would be grateful if you, on your
28 part, would introduce your associates to us. We would
29 like to address questions to you but before we do so,
30 we would be glad to hear anything you care to say to
us.



1 MR. KNAPP: Mr. Chairman, and members of the
2 Royal Commission on Taxation. Before I make my remarks,
3 I would like to introduce the representatives of our
4 Association here to-day. On my immediate right is Mr.
5 E. L. Gardner, Chairman of our Government Acts and
6 Regulations Committee and Operating Vice-President,
7 RCA Victor Company Limited, Montreal.

8 On my far right Mr. Cowan Harris who is General
9 Manager of our Association.

10 On my immediate left is Mr. D. C. Marrs, Chairman
11 of our Receiver Division, Vice-President, Consumer Products
12 Division, Canadian Westinghouse Company Limited, in
13 Hamilton.

14 On my far left Mr. J. R. Dunn, Chairman, Elect-
15 ronic Tube Section, Manager, Rexdale and Dufferin Tube
16 Plants, Canadian General Electric Company Ltd., Toronto.

17 These men are prepared to answer questions
18 which you gentlemen might have after my resumé.

19 Our industry association is a non-profit trade
20 association representing over one hundred manufacturers
21 of radio, television, electronic equipment, and parts
22 employing almost twenty thousand people and accounting
23 for approximately five hundred million dollars of our
24 gross national product. I do not think I have to
25 elaborate on what electronics means today, the world
26 over, in terms of potential growth and as a basic and
27 necessary segment to any dynamic country's well-being.
28 It will have a profound effect on every nations ultimate
29 position in a competitive world. Each day it becomes
30 more apparent that this industry is a necessary and



1 integrated part of every industrial nation and will de-
2 termine whether that nation will be a leader or a follower.

3 Gentlemen and Lady, I cannot emphasize strongly
4 enough that tax laws and policy will play a key and
5 possibly a deciding role as to whether Canada continues
6 to have an electronics industry. The Tax environment in
7 which we are required to operate will dictate, to a great
8 extent, whether our industry can continue to operate and
9 indeed exist both at home and abroad in competition with
10 foreign goods. It is no small task, and I might add,
11 discouraging for a young and growing industry to be
12 saddled with the taxes which take three or four times more
13 of it's dollars than the industry itself is able to
14 retain - dollars which are desperately needed for ex-
15 pansion, research, development, and incentive. And
16 it is a bitter pill that some of these taxes are actually
17 subsidizing our foreign competition.

18 Our Association's brief is confined to those
19 tax problems largely peculiar to the electronics industry.
20 We have submitted recommendations, and in some instances,
21 alternatives, which are summarized and detailed in the
22 brief and it's appendices. We are concerned with two main
23 topics namely:

- 24 1. The Excise Tax Act
- 25 2. The Income Tax Act

26 Our Brief makes recommendations concerned with:

- 27 1. The removal of the temporary excise tax (temporary
28 twenty-three years ago in the words of the then Minister
29 of Finance) on our industry consumer products - products
30 which directly compete for the consumer dollar with



1 others from whom the burden of excise tax has been re-
2 moved for years.

3 2. The removal of excise tax on replacement electron
4 and cathode ray tubes used to maintain equipment which
5 was originally subject to excise tax.

6 3. The removal of excise tax on electron tubes used in
7 non-excise taxable products. This tax very adequately
8 helps to increase the price of the Canadian made product
9 which must compete with the non-excise tax imported
10 product.

11 4. The adjustment of sales and excise tax on imported
12 parts. Isn't it ironical that sometimes the Canadian
13 manufacturer must pay taxes that nearly exceed the total
14 landed cost of an import? Competition of this type is
15 not just difficult. It's impossible.

16 5. The adjustment of taxes on specially branded consumer
17 goods, domestic or imported, so that they carry their
18 fair share of the tax load in relation to identical
19 merchandise not in this specially branded category.

20 6. The removal of taxes on advertising credited to a
21 purchaser as part of the original purchase price.

22 7. The removal of taxes on vendor financing charges so
23 that such charges be given the same non-taxable status
24 as other financing charges.

25 8. Finally - the continuation of a liberalized tax
26 incentive program to encourage exports.

27 Gentlemen and Lady, our Association brief
28 discusses these problems and recommendations in detail.
29 We are grateful for the opportunity to present our views
30 to the Royal Commission on Taxation. For this hearing



1 we thank you.

2 May I now suggest that you direct your questions
3 to Mr. E. L. Gardner, Chairman of our Taxation Committee,
4 in the original instance. He will attempt to answer
5 directly or will request one of our Association repres-
6 entatives to do so. Thank you.

7 THE CHAIRMAN: Thank you Mr. Knapp. You
8 address yourself to two of the tax laws, consumer taxes
9 comprising sales taxes and excise taxes and also income
10 taxes. I would suggest that we deal with the first of
11 these until we get through with that, and then go on
12 to income taxes after.

13 Before I come to the brief, I think I might
14 see that we all know all about your Association. You
15 indicate that it represents 100 members and those,
16 of course, would be the large well-known manufacturers
17 of consumer products, T.V., radio sets and tubes.
18 Beyond that I would think there are a number of manufact-
19 urers of special equipment essentially for defence
20 purposes?'

21 MR. KNAPP: Our membership, Mr. Chairman, is
22 the consumer products you speak of and also there are a
23 number of members who do special defence work and of
24 course the majority of the membership is made up of
25 the parts manufacturers who make the small parts that
26 go into the finished goods.

27 THE CHAIRMAN: I notice that you say that those
28 people must be kept in business until required for
29 emergency or use in space projects, I suppose, by the
30 sale of consumer products. Do the same people generally



1 deal in both?

2 MR. KNAPP: There are some of our manufacturers
3 sir that deal in both.

4 THE CHAIRMAN: There are a lot that do not,
5 I imagine?

6 MR. KNAPP: Yes sir. There are some that
7 are isolated in one area or the other.

8 THE CHAIRMAN: Unless there is anything else,
9 we will come to sales taxes.

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1 THE CHAIRMAN: I observe your statement to
2 the effect that: "It is discouraging for a young and
3 growing industry to be saddled with
4 the taxes which take three or four
times more of its dollars than the
industry itself is able to retain."

5 when you say that you combine income tax and sales
6 and excise tax I assume.

7 MR. KNAPP: Yes, sir.

8 THE CHAIRMAN: Do you think of sales and
9 excise tax being borne by the industry or by its
10 customers or is it going to make any difference in your
11 cost?

12 MR. GARDNER: I suppose indirectly there
13 is no question every tax that is payable by the
14 manufacturer is ultimately passed on to the purchaser?

15 THE CHAIRMAN: Sales tax, you mean?

16 MR. GARDNER: Sales tax and excise tax where
17 applicable. I think the point that is being made
18 here is that is that the consumer portion of the
19 electronics industry is saddled with taxes which are
20 applicable to very few other industries and to the extent
21 that the tax enhances the selling price and the sales
22 are correspondingly reduced.

23 THE CHAIRMAN: I recognize the point in your
24 submission all right, but I have sometimes thought
25 that manufacturers exhibited not as much interest in
26 sales and excise tax as they do in other forms of
27 tax, and I have guessed that the reason for that is
28 they don't feel they were, in fact, bearing the tax,
29 they feel they were passing the tax on and it wasn't
30 directly their responsibility.



1 MR. GARDNER: I doubt if that is true in the
2 Electronic Industries Association.

3 THE CHAIRMAN: That is not true of electronics.
4 Mr. Walls.

5 MR. WALLS: In paragraph 10 on page 4 on
6 excise tax you say: "The association recommends that
7 this imbalance of tax burden be remedied by the
8 removal of the excise tax from the parts included in
9 Item 5 of Schedule 1 of the Excise Tax Act". Of
10 course, Item 5 includes a great deal more than merely
11 the electron and cathode ray tubes. It includes
12 the sets that they go into it. I am rather surprised
13 that in your brief to us and in particular in your
14 briefs to the Minister that you concentrated entirely
15 on the removal of the excise tax on the tubes rather
16 than concentrating on the end-use exemption because
17 in many cases whether the tube is taxable or is not
18 taxable is dependent on the status of the end-use
19 product. Is there any reason why, beyond the fact
20 that your prime interest is in tubes rather than in
21 selling of the sets, why you should concentrate your
22 case only on the tubes themselves?

23 MR. GARDNER: I don't think this is the case.
24 I think there have been possibly just as many
25 representations made with respect to receivers as with
26 respect to tubes.

27 MR. WALLS: I am talking about this
28 presentation today and the one to the Minister. You
29 casually mention you think it is unfair on phonographs
30 today which you consider no longer a luxury. You leave



1 it at that and concentrate your whole case on the tubes.

2

3 MR. GARDNER: Paragraphs 7 to 10 deal with
4 receivers primarily. Paragraphs 11 to 14 deal with
5 tubes.

6 MR. HARRIS: Perhaps, sir, I would feel that
7 we have covered both in this presentation to your
8 Commission. As indicated by Mr. Gardner we cover
9 radio and television receivers in paragraphs 7 to 10
10 and go on to tubes. Perhaps the attachment of the
11 actual brief on tubes to the Minister of Finance may
12 give the impression that you indicate, but it isn't
13 really so. We feel here we are making a case strongly
14 for both and certainly in our presentations to the
15 Department of Finance over the years we have hit both
16 very hard. This association, of course, is made at
17 the three divisions, we have the receiver division
18 covering consumer products, the electronic division
19 covering electronic equipment of manufacturers and we
20 have a third division, the parts manufacturers, and
21 they each have their problems and these presentations
22 to government don't go out in combined form. They go
23 out separately. In this case we have attached the
24 tube products because they wished us to do so.

25 COMMISSIONER WALLS: I think basically
26 that ~~what you~~ ~~recommend~~ ~~is~~ that phonographs and
27 T.V. sets and radios are no longer luxuries, rather
28 are items of furniture in everybody's homes, and
29 perhaps should be considered on the same basis as
30 furniture. Then you come to page 5 and you start



1 dealing with inconsistencies and anomalies you
2 run into with respect to your tubes. For instance
3 you say "Tubes required for the production of these
4 instruments are purchased excise tax exempt under
5 license". The reason, of course, for that is the end-
6 use product is taxed so naturally that manufacturer
7 gets his tubes tax free. Is that correct?

8 MR. GARDNER: Yes. I think the point made
9 under electronic tubes doesn't relate to the tubes
10 in the manufacture of the receivers but to the tubes
11 sold for maintenance purposes to maintain the receiver
12 in operation condition.

13 COMMISSIONER WALLS: You also realize that
14 while the matter of justification has to be considered
15 by the Commission we are also faced with the
16 standpoint of revenue.

17 MR. GARDNER: Yes, sir.

18 COMMISSIONER WALLS: Well the revenue of the
19 tubes based on your own figures is about \$300,000.00;
20 the revenue for excise alone on section 5 is about
21 \$19 million so when we get into \$19 million there are
22 other factors that have to be taken into consideration.
23 Going on with the tubes again you then point out in
24 paragraph 13, you say "Item 5(c) of Schedule 1 of the
25 Excise Tax Act requires the Canadian manufacturer of
26 non-excisable electronic equipment to pay excise tax,
27 on the electronic tubes incorporated in the transmitter".
28 Of course that I agree is contrary to the spirit of
29 sales tax. It seems inequitable, but I would think
30 that the reason that the Government has had to do this



1 is that there are a number of products that are
2 excisable that can be incorporated into non-excisable
3 products which can easily be removed. The other
4 day I was pricing a desk set for presentation. On the
5 desk set was a clock that was only attached with one
6 single screw to the onyx base. The clock is excisable.
7 The desk set isn't. Naturally in cases like that
8 they would have to charge excise on the clocks that
9 went into this combined product, wouldn't they?

10 MR. GARDNER: Yes, but not on the desk set.

11 COMMISSIONER WALLS: Not on the desk set.

12 That is exactly the same situation as you are complaining
13 about here.

14 MR. GARDNER: Except in this case.....

15 COMMISSIONER WALLS: They are taxing tubes
16 but it is being incorporated in non-excisable products.

17 MR. GARDNER: We are paying sales tax on
18 top of excise tax.

19 COMMISSIONER WALLS: ~~Th~~So they also are in
20 the desk set I am quoting. I am trying to foresee the
21 difficulties the Government would face in trying to
22 eliminate the excisable product when it is part of a
23 non-excisable product.

24 MR. GARDNER: If the desk set were imported
25 wouldn't the tax be the same as if it was made in
26 Canada?

27 COMMISSIONER WALLS: Of course you deal with
28 that later and I would rather go into it later.

29 MR. GARDNER: I think that probably is the
30 same with a small transmitter and the tube contained



1 is not subject to excise tax.

2 COMMISSIONER WALLS: I agree, and I agree it
3 is an anomaly. There is no question about it. That
4 is why I get back to my original statement, I think
5 you could have presented a better case if you had
6 dealt with the end-product being exempt than merely the compene
7 only with
8 because when we ~~deally~~ the component we are in trouble.

9 MR. GARDNER: These are various alternative
10 proposals.

11 COMMISSIONER WALLS: You have another product
12 I can think of that you get into some difficulties on,
13 and that is bleach which is an excisable product.
14 Cleaners and cleansers are not.

15 MR. GARDNER: Yes, sir.

16 COMMISSIONER WALLS: With a cleanser, and I
17 have seen some advertising that some contain bleach,
18 when does it get out of the cleanser class and into
19 the bleach class? These are some of the difficulties
20 that you run into and I think that is the reason why
21 you have difficulty with regard to your tubes. Moving
22 on to page 6 you are talking about subsidization of
23 imports and the fact that they don't have to contain
24 such expenses as distribution expenses, warehousing,
25 advertising, sales commissions, etc., but have many
26 of these not been carried out by the manufacturers
27 in the country of origin and may be included in the
28 export price.

29 MR. DUNN: I would suggest, sir, these are
30 usually excluded from the price at which he sells his
exports.



1 COMMISSIONER WALLS: Have you any data you
2 can give us on this? We have had this statement made
3 before
4 by importers/but we have never seen any examples.

5 THE CHAIRMAN: How about the example at the
6 back, the letter to the Minister, appendix A
7 accompanying the letter of April 26th to the Minister
8 of Finance.

9 COMMISSIONER WALLS: It shows the differences
10 in price. And I would like to come to that one a
11 little later on because I think there we have a
12 problem. I don't think if these charges were added
13 a import price
14 would make the difference between/36 cents/and \$1.00
15 domestic price
16 /anyway. As I understand imports today carry customs
17 tariff of 20 per cent; is that right?

18 MR. DUNN: In most cases except the United
19 Kingdom.

20 COMMISSIONER WALLS: British Preferential
21 is free.

22 MR. DUNN: Is duty free.

23 COMMISSIONER WALLS: Duty free, that is what
24 I mean. Those that you are worried about, I presume,
25 are from Japan and other European countries?

26 MR. DUNN: We are extremely anxious about the
27 impact of the United Kingdom duty free.

28 COMMISSIONER WALLS: I didn't see that
29 mentioned. I notice you mentioned prices of Japan
30 and European countries. You didn't mention the U.K.
specifically.

MR. DUNN: U.K. because it is free of excise,
the influx from the United Kingdom now is coming in at



1 a rate equivalent to the influx of Japanese tubes.

2 COMMISSIONER WALLS: In other words the
3 Japanese tube, laid down based on your Appendix A is
4 36 cents to which you added 20 per cent which brought
5 it up to 43.2 cents, is that right?

6 MR. DUNN: Yes, sir.

7 COMMISSIONER WALLS: Does this mean that
8 the United Kingdom product comes in at approximately
9 43.2 cents?

10 MR. DUNN: This would be our assumption of this.
11 The situation we are getting now is the U.K. and Japan
12 tubes are fighting for the Canadian market and we are
13 also rans.

14 COMMISSIONER WALLS: Along that line isn't
15 there also substantial purchases from foreign
16 affiliates that are made by domestic tube users? Don't
17 they buy at preferred terms from their own parent
18 companies in Europe and other countries?

19 MR. DUNN: This is likely to some extent,
20 certainly some relationships. I don't know specifically
21 when you are talking of Europe. Certain of the tubes
22 which come in from the United States come on no
23 preferred basis, can't come in because of fair market
24 value. Another important point in this, if you look
25 at the statistics if you look at the statistics that
26 are given on the tubes which come in from the United
27 States, they are tubes which are types not made in
28 Canada, which there is no other source. The bulk of
29 the tubes are in that category.

30 COMMISSIONER WALLS: These tubes that come in



1 have to carry a cost over and above the 36 cents.
2 They have to carry the cost of packaging of the
3 individual tube, crating of the tube, freight to
4 Canada and then the tariff of 20 per cent. If that
5 tube is brought in a certain amount of advertising must
6 be done with the product in order to find a market
7 in the first place.

8 MR. DUNN: I don't think this is true, sir.
9 I think you may find that the arrangements that are
10 common are that ~~these~~ sort of tubes would find some
11 entrepreneur in Canada who is prepared to bring the
12 tubes in and carry forward all of the various stages
13 that are required to market and distribute these
14 tubes in Canada.

15 COMMISSIONER WALLS: You mention such costs
16 as transportation and warehousing. That tube has to
17 have transportation and warehousing costs to reach Canada
18 in the first place.

19 MR. DUNN: It has to pay transportation and
20 warehousing costs to some extent from the country
21 from which it comes but the costs that are still
22 necessary to distribute themselves, and it is a large
23 part of it, the breaking out into wide distribution
24 patterns in the country, the cost in Canada isn't
25 borne by this tube. We are talking of certain
26 shipments in large quantities to one central location
27 from which it starts to spread out. These charges
28 are not included.

29 THE CHAIRMAN: Wouldn't these charges be
30 included in the charge you assign to domestic tubes



1 breaking out, or whatever it may be, included in the
2 \$1.00 which is placed against the domestic tubes.

3 MR. DUNN: Yes, it would. In countries such
4 as ours these charges are quite significant. They
5 are running 20 to 30 per cent range on top of
6 manufacturing costs to get a product of the kind we
7 are talking about distributed widely across the
8 country of our size,

9 THE CHAIRMAN: These are packaging and
10 distributing costs.

11 MR. DUNN: Advertising.

12 THE CHAIRMAN: When they are distributed in
13 bulk, or as close to bulk as the manufacturer puts
14 his stuff out?

15 MR. DUNN: No. These tubes distributed by
16 the manufacturer, sir, are in the final condition in
17 which they go to the trade.

18 THE CHAIRMAN: Trade being the retailers?

19 MR. DUNN: Yes, sir, the servicemen and
20 dealers.

21 THE CHAIRMAN: Is there no wholesale operation
22 in this trade?

23 MR. DUNN: Yes, there is a wholesale operation
24 and they are passed through there to them.

25 THE CHAIRMAN: What does the wholesaler do
26 if the manufacturer produces suitably for the
27 retailer?

28 MR. DUNN: He breaks them out from larger
29 quantities to smaller quantities and provides services
30 to the various requirements on parts that the trade



1 needs.

2 THE CHAIRMAN: So the \$1.00 includes the
3 form in which they are sold to the wholesaler,
4 essentially?

5 MR. DUNN: Right, sir.

6 THE CHAIRMAN: Which, I suppose, is what is
7 generally called bulk, is that right?

8 MR. DUNN: The tubes are individually
9 cartoned. They are probably put together in a large
10 container, depending upon the purchase by the
11 wholesaler.

12 THE CHAIRMAN: Thank you.

13 COMMISSIONER WALLS: Did you give any
14 consideration to the fact that if both sales tax and
15 excise tax were moved forward from the manufacturer
16 level that this would remove, perhaps the inequality
17 you consider exists between the imported product and
18 your own?

19 MR. DUNN: Yes, sir. It would tend to.
20 The point was made too, stressed in actual dollar
21 comparison that the low cost of an imported product
22 disappears as it passes up the pipe line until
23 essentially when it gets to the consumer level it has
24 disappeared entirely. In other words the consumer
25 pays the same price for that product regardless of
26 what the source was or whether it is a Canadian made
27 product or imported product.

28 THE CHAIRMAN: Would the retailer pay the
29 same price for it?

30 MR. DUNN: I beg your pardon?



1 THE CHAIRMAN: Would the retailer pay the
2 same price for it?

3 MR. DUNN: No, sir.

4 THE CHAIRMAN: His margin would be greater
5 on the one product than the other?

6 MR. DUNN: Yes, sir, his margin is greater
7 on the foreign product.

8 THE CHAIRMAN: This is because it isn't
9 advertised and requires more effort on his part?

10 MR. DUNN: To some extent this is true, yes,
11 sir.

12 THE CHAIRMAN: What other reasons would there
13 be for that?

14 MR. DUNN: Well, at the serviceman level,
15 which is a pretty key level in the purchasing decision
16 he is having a measure of the advantage of the lower
17 cost of the imported product passed on to him, this
18 is the pulling power. He has effective control over
19 his selling price to the consumer and he has the
20 choice of going into the domestic tubes at a certain
21 price or buying foreign for an appreciably lower
22 price, in this case, in the order of 30 per cent. You
23 can see why there is so much attraction for preference
24 for the foreign product in these circumstances. He
25 can sell at the same price one that costs him 30
26 per cent less and essentially will do the same job.

27 COMMISSIONER WALLS: That difference
28 is represented, I suppose, by the value of a brand
29 name, is it?

30 MR. DUNN: Some of these can be offset by the



1 value of brand names, but there are foreign products
2 coming into the market of the electron tube in which
3 well accepted and well known brand names have been
4 applied, are being applied.

5 COMMISSIONER WALLS: Nobody is going to sell
6 their product at less than the price they have to
7 sell it at. I am just wondering why foreign products
8 would be sold for ^{over 50} 37 per cent less than the domestic
9 product in order to get into the retail trade. It
10 would have to be sold partly because the domestic
11 product has a recognized brand name. For what other
12 reason would they be sold?

13 MR. DUNN: I think there are some other
14 motivating reasons such as this: The foreign product
15 lines are not necessarily complete. In other words
16 they might have 100 of the more popular types of tubes
17 but they have to be mixed in with other products. The
18 supply situation on the one pipe line makes for
19 rather uncertain payment terms at which you would deal
20 with this operation, and the service back-up support.

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1 THE CHAIRMAN: Warranty?

2 DR. DUNN: Warranty, yes, sir, would enter into
3 it, depending upon circumstances. Some cases yes;
4 some cases no.

5 COMMISSIONER WALLS: These tubes, would they
6 be up to the same standard? I presume they come under
7 underwriting regulations for electrical equipment in
8 Canada?

9 MR. DUNN: No, sir. No conditions apply to
10 these. There is no C.S.A. approval on receiving tubes.
11 No sir.

12 COMMISSIONER WALLS: Would you consider that
13 the foreign tube is of the same quality as your own
14 tube?

15 MR. DUNN: I may be somewhat prejudiced in
16 this regard but I would say foreign tubes that
17 generally we are meeting, they are of reasonably high
18 quality. We do not think that they are, on the
19 average, quite as good as ours but here again it
20 becomes a critical condition. Are you looking at these
21 from an engineering point of view where you go into
22 a laboratory and say this tube has this reading on a
23 meter versus this one, so this one is better? When
24 talking of replacement market, this becomes the case,
25 does it work acceptably in a socket in a set? From a
26 practical point of view the answer is probably yes,
27 either one is acceptable.

28 COMMISSIONER WALLS: It would seem to me
29 that there are only two alternatives in dealing with
30 this competition, if you feel that you are carrying



1 expenses before the tax is added that they are not,
2 then either there has to be a fixed amount decided by
3 Government that will be added to the fair market
4 value to establish the equivalent of these services
5 that you give, or the taxing should be carried out
6 then at the retail level. One of the two. Now in
7 the first one, I question that you could put on
8 sufficient that would make the difference between 36
9 cents and \$1.00. That is the problem which is
10 troubling me.

11 In other words, you say that the imported
12 product from Europe and from Japan lands in at 36 cents,
13 in comparison with your own -- well I should say at
14 42.3 cents with the duty ^{added,} in comparison with
15 your own at \$1.00. Surely no Government will add 50
16 odd cents to this to cover the extra advertising
17 and extra warehousing that you have to carry in
18 comparison with the import? Even if the Government did
19 decide to arbitrarily set a figure above fair market
20 value, it would seem to me you would be up against
21 just about as tough competition as you are today.

22 MR.DUNN: I would agree with you that changes
23 in the tax application by this won't provide a panacea
24 for all of our problems, but we are going to require
25 relief in other areas as well as this.

26 In other words, the situation we find
27 ourselves in in the tube industry is a combination of
28 about a dozen factors of which this is one, and a key
29 one and in order to really correct the situation, to
30 bring it back to a sound basis, it will require, in



1 addition to relief of taxes, relief in other areas.

2 This is a primary one. One of the biggest chunks of
3 the difference is tied up in taxes.

4 MR. GARDNER: May there not be another
5 alternative, namely the one that is already established
6 in Schedule 1. You notice the tax on electron tubes
7 is 15 per cent but not less than 10 cents. Might there
8 not be a third alternative not less than some higher
9 figure than 10 cents?

10 COMMISSIONER WALLS: That is possible but
11 even that would not solve your difficulty.

12 MR. GARNER: As Mr. Dunn has said, this is
13 one of a host of other problems.

14 COMMISSIONER WALLS: On page 6 -- I was going
15 to go on to specially branded goods, unless somebody
16 else has anything further to deal with here.

17 THE CHAIRMAN: Before we move on, does anybody
18 wish to ask questions about imports?

19 COMMISSIONER GRANT: I would be interested
20 in knowing what percentage of imports find their way
21 into the service end of the electronics business?
22 What percentage might find its way into manufactured
23 products before they are offered to the public?

24 MR. HARRIS: You used the words sir "electronic
25 business". I think we have got to segregate these.

26 COMMISSIONER GRANT: Industry.

27 MR. HARRIS: We have domestic goods. The
28 imports are radios and tubes. I don't know whether Mr.
29 Dunn might be able to give you an idea. We were talking
30 about tubes.



1 COMMISSIONER GRANT: Let's restrict it to
2 tubes.

3 MR. DUNN: As far as tubes are concerned, I
4 would say that the bulk of the imports go into the
5 renewal market or service market.

6 COMMISSIONER GRANT: Well because of the spread
7 in price between the imported article and the domestic
8 article, and the inducement that the serviceman has,
9 be he a wholesaler or directly concerned with the
10 service end, would you say that lower price is being pas-
11 sed on to the consumer, or is it being, is the higher
12 price being charged for the imported article to the
13 consumer by the serviceman or the wholesaler?

14 MR. DUNN: The higher price is being charged
15 to the consumer regardless of the source of the product.

16 COMMISSIONER GRANT: So the benefits are
17 relatively few?

18 MR. DUNN: Right, sir. The reason for this
19 is that the consumer really does not buy the product,
20 in most cases. He buys the service and says come and
21 fix my television set and the serviceman writes out
22 a bill and says the service call so much, so much for
23 labour and so much for parts and it is a matter of
24 usually indifference as to what he has put in and
25 what rates he has charged. The end answer is that
26 it is so much dollars and my set works properly, or
27 it doesn't.

28 COMMISSIONER GRANT: Have you given us the
29 dollar value of the imported product that finds its
30 way into the hands of the serviceman?



1 MR. DUNN: Imported dollar value?

2 COMMISSIONER GRANT: Yes.

3 MR. DUNN: Are you talking total dollars on
4 tubes that come in that go into service?

5 COMMISSIONER GRANT: Yes.

6 MR. DUNN: I think an approximation of this
7 sir would be in the tax brief.

8 COMMISSIONER WALLS: Appendix C would have
9 that.

10 MR. DUNN: Appendix C would show imported
11 tubes under \$5.00 going into the replacement market,
12 would show a quantity of $5\frac{1}{2}$ million tubes. This would
13 be the bulk of them.

14 COMMISSIONER WALLS: At a total value of
15 \$ $3\frac{1}{2}$ million.

16 COMMISSIONER GRANT: Assuming that there is
17 about 20 per cent differential there, there is
18 something in the vicinity of \$600,000.00 that is
19 finding its way into the hands of the serviceman?

20 MR. DUNN: More than there would be if this
21 situation did not exist, yes sir.

22 THE CHAIRMAN: I am sorry, I don't understand
23 it. You import, for replacement purposes, $5\frac{1}{2}$ million
24 tubes. The unit price is 65 cents, which is \$ $3\frac{1}{2}$
25 million. That is roughly 10 per cent of the total
26 cost.

27 MR. DUNN: Total value of all tubes sir.

28 THE CHAIRMAN: I see. Under \$5.00, against
29 that the dominant source is import, but only one where
30 a dominant source is import. I am assuming that the



1 total of your imported tubes is something like \$3½
2 million. Am I right?

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4
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6 MR. DUNN: Comparable figures for these total
7 tubes imported into the country of all kinds are in the
8 10 to 11 million unit and dollar area. So half of the
9 total imports we are talking about are in this
10 replacement area.

11 THE CHAIRMAN: I think I follow you. The
12 balance are scattered around in the other categories.

13 MR. DUNN: Right, sir.

14 THE CHAIRMAN: And instead of being a
15 dominant source in other categories, it is a minor
16 source in the other categories?

17 MR. DUNN: Yes, sir.

18 THE CHAIRMAN: They add up to probably as much
19 in total as do the replacement tubes?

20 MR. DUNN: That is right.

21 THE CHAIRMAN: Roughly 20 per cent of tubes
22 are imported, or / value of tubes are imported?

23 MR. DUNN: Yes. This would be about right,
24 sir. About 20 per cent value. It is difficult to
25 get all these figures. Picture tubes are practically
26 all made here and receiving tubes figure about 11
27 million imports versus 25 million total market so it
28 would average out about 20 per cent.

29 COMMISSIONER WALLS: On page 18 you then
30 deal with the specially branded goods and your



1 recommendation is that the tax on these should be
2 increased to a figure that would make them comparable
3 with non-specially branded goods of a similar nature.
4 This, of course, as you probably know, has come to a
5 head as a result of a large chain store having tires
6 manufactured for them and the competitors in the tire
7 business complaining that they were able to sell this
8 tire at retail at a figure that they couldn't
9 compete with. This was then taken before the Tariff
10 Board who ruled in favour of the fact that the
11 original manufacturer should be the manufacturer and
12 not the chain store who put the brand name to these
13 specially branded tires and the Exchequer Court
14 supported that ruling. Then it was taken before
15 the Supreme Court who then ruled that neither one of
16 them had any justification to make a ruling at all
17 in the matter so that is the way it stands today.
18 I wondered just where you could call a halt to this.

19 For instance, if you go through clothing
20 stores or shoe stores, for instance, where instead
21 of having a manufacturers brand, they only have the
22 brand of that particular shoe store. Now are you going
23 to consider that they are in the same category as
24 anybody that buys tires or tubes and have their
25 own brand name for them? Where are you going to be
26 able to call a halt as to which is private brand goods
27 and should be considered as a manufacturer? I think
28 you will agree that the small shoe store on Sparks
29 Street who has no other name but his own name imprinted
30 on a shoe could not conceivably be considered as the



1 manufacturer and have to pay taxes on his price.

2 THE CHAIRMAN: Mr. Walls, before they reply,
3 may I draw your attention to reference 1, paragraph
4 15 of the Retail Sales Tax Committee in which they say: "when
5 goods are produced exclusively or principally for one
6 merchant and bear a trade name which restricts their
7 availability to other merchants." was the dominating
8 factor that was recommended then. Whether that is still
9 valid or not, I don't know. It was never really
10 decided.

11 COMMISSIONER WALLS: Having had some
12 experience, the reason I used shoes is because when
13 you place an order for shoes, you can have them made
14 to your own specifications. You can have many changes
15 made. Have a slip sole put in, different type of
16 counter put in, different type of lining. It is a
17 standard pattern of shoe and standard last but the
18 independent shoe store can have these changes made
19 ~~and I can see the~~ I can see the
20 reasonableness of the decision which was made by
21 Sales Tax
22 the previous/Commission, but when I started thinking
23 of it in relationship to various other products, I
24 just wondered where you could call a halt.

25 THE CHAIRMAN: We want to find out what the
26 difficulties are.

27 MR. MARRS: May I, Mr. Chairman, make a
28 comment on this matter of private brands? I think
29 the point that we are concerned with, of course, is
30 the point at which tax is assessed and the fact that
on national brand costs which are not normally borne



1 by the manufacturer are, of course, taxed, where in
2 the private brands there are a number of costs which
3 occur after the point of taxation rather than before.
4 They, in our opinion, are very significant and I know
5 that you are familiar with probably most of them but
6 just to maybe refresh your memories a bit, the functions
7 which the retailer or the owner of a private brand
8 performs which under the national brand is performed
9 by the manufacturer, are these: First of all, in our
10 products where there is considerable product planning
11 to be done, and I am not talking about engineering
12 design or basic design, but I am talking product
13 planning in terms of styling features, handles, trim,
14 that sort of thing, much of this work is done by
15 the retailer. He decides what the market wants. He
16 does the market research, decides what the market
17 wants. From that he requests the manufacturer to
18 produce these things for him. This is the function
19 that he then performs.

20 Now the next stage is on the matter of the
21 production of the product. The private brand
22 retailer commits himself to production of the product
23 and, therefore, assumes the full risk involved on the
24 price, the working process and finished product normally
25 the manufacturer assumes. That is the second thing.
26 Once the product is completed, he pays the transportation
27 to the major points in Canada, or his major sources
28 where the manufacturer of brand lines includes that
29 in his price to the major distribution point, so
30 there is a matter of transportation there. Once the



1 product arrives at this point, the owner of a private
2 brand also pays the full cost of warehousing that is
3 normally done by the distributor and is included in
4 the taxable value of the branded product. Generally
5 speaking he assumes the cost of guaranty and waranty
6 which again is occuring after the point of tax
7 rather than before.

8 He, of course, assumes also the cost of
9 advertising and promoting that product so that there
10 are, in my opinion, six major elements of cost which
11 to the method of private brand occurs after taxes
12 rather than before.

13 THE CHAIRMAN: Six costs which would normally
14 be borne by the manufacturer or, by virtue of private
15 brand, transferred to the retailer?

16 MR.MARRS: That is correct. Now I have
17 often heard it said that we should not do anything to
18 interfere with more efficient means of distribution
19 and that if this private brand method is a much more
20 efficient means of distribution, then we should be
21 careful not to, as I say, interfere with it. The
22 fact I think is that certainly from the studies that
23 we have made, that it is not necessarily a more
24 efficient method of distribution in so far as the
25 consumer is concerned and the ultimate cost to the
26 consumer.

27 --

28 --

29 --
30



1 Inherently these private brands find their way into
2 the large department store and their cost of operation
3 is again inherently more costly than the independent
4 retailer so if you take the total cost of distribution
5 from the point at which the finished product gets out
6 of the factory until it reaches the consumer I don't
7 believe one of them is any more efficient than the
8 other. In fact, I believe if anything it might weigh
9 a little more in favour of the national brand.

10 THE CHAIRMAN: It escapes me as to what
11 efficiency has to do with this. We are, I think,
12 charged with trying to find out where neutrality lies,
13 which means to seek the right point at which to tax
14 in these transactions or to find, at least, what the
15 equivalent point of tax is in the two flows to which you
16 refer.

17 MR. MARRS: Certainly from the point of view
18 of a tax the matter of efficiency wouldn't enter into
19 it.

20 COMMISSIONER WALLS: I have two further
21 questions in regard to the same matter. What would be
22 the difference between that same store going to a tire
23 manufacturer and saying, well now, I buy my tires from
24 you, have you got another brand name of your own you
25 are not using? Most of them have one or two spare
26 brand names. They could buy the tires just as they
27 were under the second brand name. You have no
28 assurance by mere removing of his own brand name that
29 he is going to pay more for the product than he pays
30 under his own brand name and therefore the tax wouldn't



1 be any different.

2 MR. GARDNER: Wouldn't it be likely, sir,
3 he would have exclusive use of the second brand name.

4 COMMISSIONER WALLS: I don't know if there is
5 anything that can stop that. If a manufacturer has an
6 extra brand name I don't think there is anything in the
7 Excise Tax Act that prevents the manufacturer from giving
8 a brand or special brand name to any one vendor.

9 MR. MARRS: That is certainly something that
10 could conceivably be done. I would want to refer to
11 Mr. Gardner here the basis of tax on national brands
12 or manufactured brands is distributor price or discount,
13 which is a discount to the distributor price. Therefore
14 if the manufacturer used another brand and handled it
15 for exclusive distribution through one channel it is
16 my understanding that the basis of tax would be
17 established at the distributor level rather than at the
18 actual selling price so that you would be equating
19 the thing, I think, and bringing it in wouldn't that be
20 true, in other words the selling price would, therefore,
21 be closer to the distributor price.

22 MR. GARDNER: Yes.

23 MR. MARRS: Because in that instance the
24 manufacturer of that additional brand would have to
25 assume many of the functions which currently, which he
26 does on his regular brand, he would have to carry the
27 guarantee.

28 COMMISSIONER WALLS: I put up one other point
29 then to you: A little while ago you were agreed that
30 it would be advantageous to your industry if the taxation



1 were moved forward to the retail level to remove some
2 of the anomalies. If the tax were moved to the retail
3 level you would not solve the matter of special brands at
4 all, would you, because the retailer would be buying at
5 a special price and the tax on that would be after the
6 transaction had been carried out.

7 MR. MARRS: If it was applied on the selling
8 price, you mean?

9 COMMISSIONER WALLS: That is right.

10 MR. MARRS: I don't quite understand why it
11 wouldn't correct this problem.

12 COMMISSIONER WALLS: If this chain store bought
13 tires at prices lesser than the rest of the trade were
14 able to buy them at he would establish a selling price
15 based on his purchase price and the tax would then
16 go on his unit price which would again be giving
17 less tax than his competitors would be collecting on
18 higher priced like quality products, so you wouldn't solve
19 the situation of special branded goods by the moving
20 of this tax forward to the retail level.

21 THE CHAIRMAN: It depends what solution means.
22 If the solution they seek is to take out of the
23 consumer the same proportion of the money that he is
24 spending whether he is spending it on brand or unbrand
25 they would reach that solution. If it is to take out
26 of the consumer the same amount of tax on a tire of
27 equivalent value to another tire, one which had a brand
28 and one which didn't have a brand, they wouldn't
29 achieve that solution. I don't know if that is the
30 solution. I would think the solution is to try and



1 relate tax to consumer spending. Is that not what we
2 seek to do with consumption tax?

3 MR. MARRS: That is what I believe we are
4 certainly seeking to do. As manufacturers I think it
5 becomes a responsibility of ours to see that the
6 consumer can buy national brands or whatever brands for
7 the same amount of dollars. I don't believe that
8 national brands should necessarily be sold for more
9 than the private brands. It then becomes the selection of
10 the consumer. The fact that in getting out to the
11 consumer we already pay more tax makes it that much more
12 difficult for us to place it in the hands of the
13 consumer at an equivalent price. We are striving to
14 get our product into the hands of the consumer on an
15 equitable basis so we can compete dollar for dollar
16 with any other system in providing the consumer with
17 private brand products.

18 THE CHAIRMAN: Can you not well say to us
19 that under the system as it now exists the consumer
20 pays a higher proportion of tax, although he doesn't
21 know it because it is at a level he doesn't see, he
22 bears a slightly higher proportion of tax on the
23 national brand goods than ~~he~~ does on the private brand
24 goods.

25 MR. MARRS: That is right, so in essence he
26 gets less value for what he spent.

27 THE CHAIRMAN: The essence of tax is not the
28 same to the consumer.

29 MR. MARRS: That is correct.

30 THE CHAIRMAN: That would be correct, would it



1 not

2 MR. MARRS: In my view that is correct.

3 COMMISSIONER WALLS: It would be a substantial
4 administrative problem to make that adjustment.

5 THE CHAIRMAN: The adjustment would follow if
6 the tax were levied at the consumer level. There would
7 be no adjustment.

8 COMMISSIONER GRANT: In practice, in Canada,
9 do you find that where the manufacturer is producing
10 his goods for one retail outlet on a brand name basis
11 that usually he is also producing the goods in the
12 same plant for the trade generally.

13 MR. MARRS: I have to agree with the word
14 generally, although not always.

15 COMMISSIONER GRANT: There is a reluctance,
16 is there, on the part of the manufacturer to tie himself
17 up entirely to one purchaser.

18 MR. MARRS: Of course then you can become
19 the victim of various forces, as I think you are no
20 doubt aware, because this product goes on the market
21 for negotiation annually and it can become
22 a very disruptive thing. However if we just step out
23 from electronics for the moment, certainly in the major
24 appliances there are manufacturers that produce only
25 private brands, nothing else, but in the electronics
26 field this is not so.

27 COMMISSIONER GRANT: Where it is not so would
28 there be some advantage to the manufacturer in reducing
29 his costs if he has a contract for
30 a brand name?



1 MR. MARRS: Do you mean the result would be,
2 there would be through the increased volume, a reduction
3 of overall costs? At the same time, however, over
4 a long time this usually forces him into increased
5 investment facilities and so on which also tends to be
6 more heavily absorbed by the national brand because of
7 the pressure of the heavy volume of private brands on
8 him. I think over the long term his unit costs would
9 not necessarily be less.

10 COMMISSIONER GRANT: If it is less as a result
11 of his brand name contract then the national brand is
12 being put on the market at a somewhat lower cost, if
13 the advantage exists.

14 MR. MARRS: In that particular instance, yes.
15 However, if we can just, maybe, view the total volume
16 going to the consumer, whether it went through the
17 private brand or whether it went through the national
18 brand, the total industry would produce it at the same
19 cost whether it be a national brand or a private brand.
20 There would, in fact, be no saving. The individual
21 manufacturer, yes, but as total industry, no.

22 COMMISSIONER GRANT: Why would that be, Mr.
23 Marrs?

24 MR. MARRS: If I could just use a simple
25 example, let us assume that there are 400,000 television
26 sets sold to consumers in Canada. Now, it doesn't
27 really matter whether those television sets go out
28 under national brands or private brands as far as the
29 total cost of producing them is concerned. In fact,
30 the more brands there are the more cost there would be,



1 not less, and therefore if you introduce into an
2 economy like Canada ten national brands and then
3 introduce another ten private brands the unit cost of
4 the total is going to be greater, not less.

5 COMMISSIONER GRANT: If you could narrow
6 them down to four it might become less.

7 MR. MARRS: It would become less. It would
8 become less, but the matter of private versus national
9 brands wouldn't alter it, in my opinion.

10 MR. GARDNER: The point is if there is a
11 market for 400,000 receivers it is really immaterial
12 whether they are sold as a national brand or private
13 brand.

14 MR. MARRS: The cost is related actually to
15 two things: One, the number of individual facilities
16 that are available in Canada and two, the number of
17 brands that each of these facilities produce. If
18 each facility produces one brand only it would be less
19 costly than if they produced more than one brand. I
20 think this is something that certainly bears some
21 consideration on this overall problem.

22 THE CHAIRMAN: If I understand this, if the
23 company could sell 400,000 sets the total cost to the
24 company would be the same whether the total 400,000 were
25 sold under a national brand or if they were sold under
26 a private brand providing they were all the same
27 quality and made in the same quantities....

28 MR. MARRS: Right.

29 THE CHAIRMAN:by the same number of
30 manufacturers, I suppose.



1 MR. MARRS: That is right.

2 THE CHAIRMAN: And distributed by the same
3 number of distributors.

4 MR. MARRS: Yes.

5 THE CHAIRMAN: It makes no difference in the
6 final results whether it is national or private?

7 COMMISSIONER GRANT: That is the thing that
8 is either one or the other, but when you have both
9 competing then you have a differential.

10 MR. MARRS: I would say it causes an increase
11 rather than a decrease.

12 COMMISSIONER GRANT: There would be a
13 differential.

14 THE CHAIRMAN: Not because it is one kind of
15 brand or another kind of brand; it is because of the
16 number of units that are manufactured or distributed.

17 COMMISSIONER GRANT: Or efficiency in
18 operation.

19 MR. MARRS: We find in Canada we are producing
20 already a certain number of national brands. Each
21 national brand requires investment in addition to
22 facilities, investments in new developments, investments
23 in styling changes and so on to induce the consumer
24 to buy. If instead of producing 100 per cent. of
25 one brand we produced 50 and 50 the unit cost would
26 go up because the styling changes and the run are
27 going to be shorter. All these things have an effect.
28 The more brands we have whether private or national,
29 obviously the more brands we have in Canada, the more
30 is going to be the unit cost.



1 COMMISSIONER GRANT: Advertising cost enters
2 into this.

3 MR. MARRS: Advertising costs, yes, and of
4 course this becomes another subject as well.

5 COMMISSIONER WALLS: I was just going to lead
6 on to that. This is the next section. This is dealing
7 with Section 22(b) of the Excise Tax Act where it states
8 included in the manufacturers price is the cost of
9 advertising and finance -- I was quite surprised that
10 apparently in your industry in many cases the amount
11 charged makes allowance for advertising to be done
12 by the purchaser on a cooperative basis and, of course,
13 as a result you are taxed on ^{your portion of} that. Could your
14 product not be sold with advertising with a contractual
15 arrangement with the purchaser to agree to a refund
16 of a portion of the advertising costs later, and you
17 seek that quantity in your selling price.

18 MR. MARRS: I am not sure I follow you.

19 COMMISSIONER WALLS: As I understand it
20 you state in many cases in your industry you make
21 contractual arrangements with your purchaser that
22 they will do a certain amount of advertising and you
23 will carry a portion of the cost. You include that
24 in your selling price and are naturally taxed on it.
25 This is what you are complaining about. Why couldn't
26 you make a contractual arrangement that he goes ahead
27 and pays for the advertising and later he bills you
28 for a portion of the advertising without that entering
29 into the price of the product at all.

30 MR. MARRS: Of course, first of all, if he



1 bills us for the advertising which we have contracted
2 to pay proportionately this is going to impose a cost
3 on us which we have to recover through our selling
4 price to him. If we sell a product for \$100.00, and
5 the practice varies by manufacturer, but if I may use
6 an example, we might agree to pay up to 2 per cent
7 cooperatively on the sale of the product, so that if
8 he wants to spend \$2.00 we will match that \$2.00 and
9 pay it to him. This is what happens today. He
10 advertises \$1.00 worth to move that product. He comes
11 on the manufacturer for \$2.00 and receives an
12 adjustment or rebate of \$2.00 of which we are not able
13 to claim tax refund.

14 THE CHAIRMAN: This is in your selling price?

15 MR. MARRS: This is in our selling price
16 although in actual fact it doesn't go into our official
17 income.

18 COMMISSIONER WALLS: That is what I was
19 getting at. I was just wondering why you couldn't
20 charge at \$98.00 and show it in the profit and loss
21 statement without the government taxing you further.

22 MR. MARRS: We could show at \$98.00 but where
23 is the retailer going to get the \$2.00?

24 COMMISSIONER WALLS: Could he not bill you
25 later on for assistance with his advertising?

26 MR. MARRS: If he bills then it is going to
27 come out of the \$98.00.

28 COMMISSIONER WALLS: Yes, that is true
29 enough.

30 THE CHAIRMAN: Lose money.



1 COMMISSIONER WALLS: Suppose you bill \$100.00
2 and later on he puts a charge through, does the Excise
3 Department check your books to that extent that you
4 are charged with indirect advertising? I can understand
5 this was put into effect in order to cover direct
6 advertising.

7 MR. MARRS: Yes.

8 COMMISSIONER WALLS: On the manufacturer?
9 but in this case it is not direct advertising by the
10 manufacturer. This is advertising by the vendor, the
11 final vendor of the goods is doing the advertising.

12 MR. MARRS: That is correct.

13 COMMISSIONER WALLS: You are merely giving
14 him a subsidy towards that. I question whether that
15 was ever the intent of this Act, that they should tax
16 a subsidy on somebody else's advertising.

17 MR. MARRS: Well, in my view it could be
18 cleared if we could issue credits to the retailer and
19 these could be claimed for tax rebate. This is really
20 what we are suggesting.

21 MR. GARDNER: In effect we are in the
22 position of paying tax on \$100.00 where the revenue is
23 \$98.00.

24
25 ---



1 MR. MARRS: You see, also a brand manufacturer
2 seeks this means, in a sense, of one establishing a
3 relationship with the independent retailers so that
4 in combination they can develop plans which are good
5 for both, which are designed to create demand for the
6 product and at the same time sell it. Also that
7 retailer advertises in the local newspapers at local
8 rates which, aside from the volume differential, is on
9 a comparable basis to the large private brand
10 department store. So, in any other type of newspaper
11 advertising that a national brand does, of course he
12 pays a premium rate, premium national rate. This
13 is one of the other serious inequities which I would
14 not want to introduce further in here but it becomes
15 an extremely serious problem. This matter could be
16 overcome through classifying this in such a way that
17 we could claim a refund.

18 THE CHAIRMAN: Is the term "cooperative
19 advertising" clear enough to legislate in respect of
20 it?

21 MR. MARRS: It is the only term that I
22 recognize.

23 MR. GARDNER: It is well known in the trade.

24 THE CHAIRMAN: I am just wondering if the
25 limits to it are clearly defined.

26 MR. MARRS: I would have to say this is
27 something that would have to be studied fairly detailed.
28 Cooperative advertising could, in effect, represent
29 any percentage that was done.

30 COMMISSIONER WALLS: Plus the fact I presume



1 one of the clauses in your contractual agreement for
2 this advertising would be that your product would be
3 named in the advertising and then it becomes a question
4 as to whether or not it is really not advertising
5 entirely of benefit to you as much as it is to the
6 retailer.

7 MR. MARRS: It is supposed to be of equal
8 benefit. That is why it is cooperative.

9 MR. GARDNER: I think in effect what we are
10 suggesting, this section 22 which requires the inclusion
11 in the selling price of any amount that the purchaser
12 is liable to pay the vendor, that should go on and
13 say less any amount which the vendor is liable to pay
14 to the purchaser.

15 MR. MARRS: I think we as a national brand
16 manufacturer -- the way I view it as a national brand
17 manufacturer, we have to establish a demand for the
18 product. We have to create a demand for the product
19 through the national type of advertising that we do.
20 Then when it moves to the retailer, we allow him, in
21 effect, to use our name and the fact that we have
22 created this product demand, we let him use that as
23 one means, plus his own name, of getting people to come
24 in to his store to buy that particular product so in
25 association and in relating the two names together,
26 he can trade off the power of the national brand name.

27 THE CHAIRMAN: It is done very much in your
28 industry. Where else does one see cooperative
29 advertising? I think automobiles, perhaps?

30 MR. MARRS: I am not familiar with whether there



1 is. That is entirely different distribution, a form of
2 control distribution, in a sense. I don't know whether
3 they have cooperative advertising.

4 COMMISSIONER WALLS:

5 Is it not surprising that in an industry that relies
6 mostly on selling to servicemen that you are in an
7 advertising program of this kind? For instance, I have
8 never seen various types of tubes ---

9 MR. MARRS: I am sorry, I am talking about
10 consumer products, so the finished product.

11 COMMISSIONER WALLS: Yes, but the brief did
12 not say that.

13 THE CHAIRMAN: I would gather that. That is
14 the only place I have ever seen cooperative advertising.

15 MR. MARRS: There is no cooperative advertising
16 in -- I shouldn't speak for you.

17 MR. DUNN: Essentially this is true. This is
18 a different problem.

19 COMMISSIONER WALLS: The other item that you
20 have objected to, alongside of that, of course, is that
21 you do a certain amount of financing. In doing that
22 financing are you dealing with it on the regular 30-60-90
23 day credit arrangements that most manufacturers have?

24 MR. GARDNER: It was not intended to relate
25 to consumer products as much as capital goods products.
26 For example, television transmitters, communication
27 equipment which is usually sold on a five-year term,
28 conditional sales contract. An article, of course, may
29 have a price of \$100,000.00. Maybe the finance
30 charges are \$10,000.00 so the \$110,000.00 is subject to



1

2 COMMISSIONER WALLS: So you are in a position
3 where, under the terms of the Act, you have to include
4 that. Whereas, if they go to a private finance company,
5 they do not?

6 MR. GARNER: That is right.

7 THE CHAIRMAN: This is long term financing?

8 MR. GARDNER: Yes, it is. Usually it is
9 related to capital goods.

10 THE CHAIRMAN: Is there anything else on the
11 advertising and finance charges? I think we might
12 move on to income taxes then.

13 MR. MARRS: Mr. Chairman, if I may just ask,
14 I just want to make sure that as a representative of
15 the Receiver Division I would have an opportunity to
16 talk about this matter of excise tax because the
17 discussion really centered on the tube industry and,
18 of course, that is of some importance but not nearly
19 so important to me as the end product is.

20 THE CHAIRMAN: I think this is your chance.
21 Proceed.

22 MR. MARRS: Well Mr. Walls you stated earlier
23 that you wondered why such emphasis had been placed on
24 this matter of excise taxes at the tube level and less
25 emphasis on the receiver levels since an excise tax
26 on the receiver, or end product level then would
27 probably literally cure the entire problem. I feel
28 rather badly that it did not assume the importance
29 that I feel it deserves because we are in the business
30 of producing a product for the consumer and for the home,



1 and in doing so we are out fighting and competing
2 against everybody else that competes for the consumer
3 also. With the excise tax tagged on this product, and
4 almost singled out -- literally singled out amongst
5 all other consumer products, it becomes an extremely
6 difficult penalty to bear.

7 I find it difficult to understand, although
8 admittedly the income of \$19 million is unquestionably
9 a strong determining factor, but it does not seem really
10 fair to me that it should be one -- that one product
11 line should be singled out for this kind of treatment.
12 It had a purpose earlier, but I am not aware of any
13 useful purpose today. The fact also is that in our
14 struggle for the consumer dollar, and in actually the
15 durable field, we have during the past five years
16 suffered a loss in our share of those dollars.

17 I am not talking about the movement of the
18 consumer spending from durables to services, but our
19 share of the durable market has shrunk, and it has
20 shrunk because obviously we have not been able to
21 entice or interest the consumer as much in buying a
22 television set as they have been interested in buying
23 an outboard motor boat, or an outboard motor as an
24 example.

25 I personally find it extremely hard to
26 accept the fact that we should pay a 15 per cent excise
27 tax on television sets when you can go out and buy an
28 outboard motor, as an example, and I think it is a
29 fairly striking one, with no tax. It just doesn't seem
30 correct to me. It doesn't seem right and so that regardless



1 of the \$19 million, if it has to be obtained, there
2 should be some equitable method found.

3 I am not arguing so much about the principle
4 of excise tax as the principle of equity here, and in
5 our fight, as I say, I feel that we have to have one
6 hand tied behind our back.

7 Also at our last meeting, or hearing with the
8 B.B.G., the statement was made that in Canada we were not
9 capable of producing a coloured television set at a
10 cost sufficiently low to interest the consumer in buying
11 that product, and they made comparisons with the price,
12 the going price of Canada with that of the United
13 States. Tax bears heavily on our ability as to whether
14 we can get that price down where it is going to
15 interest the consumer. Then in the car industry, why
16 should you be able to bring out a flashy car, bucket
17 seats and floor gearshifts, and all of these things,
18 no excise tax and yet we cannot even get equitable
19 treatment so that we can do something to introduce
20 coloured T.V. and interest the consumer away from these
21 innovations in cars. It is an extremely difficult
22 problem and it is undoubtedly having its effect on our
23 industry.

24 THE CHAIRMAN: Certainly it has been my
25 impression, perhaps erroneously, I don't know, but over
26 a long period of time your industry, I am thinking of
27 consumer products, consumer durables, radios, T.V. sets,
28 has been unsuccessful; has not been very profitable.
29 I don't know where that comes to my mind. There was a
30 Commission report many years ago in the late forties



1 perhaps, I don't recall, which indicated that profits
2 at that time were very bad and I think in one way or
3 another I have gathered the impression that has been
4 true generally throughout the business. Is that correct
5 do you think?

6 MR. MARRS: Yes. I would say that is generally
7 true. I think you are referring to the time, of course,
8 when the whole industry mushroomed its growth from a
9 mere trickle of sets to something over 700,000 units in
10 a single year.

11 THE CHAIRMAN: In the post-war period.

12 MR. MARRS: It was in the 1954-1955 period.

13 THE CHAIRMAN: As late as that?

14 MR. MARRS: Well it was when the C.B.C. first
15 started telecast in Canada, of course, and this actually
16 resulted in a mushrooming industry.

17 THE CHAIRMAN: There were two surges in your
18 industry. One catching up with the deferred production
19 of war-time?

20 MR. MARRS: Right.

21 THE CHAIRMAN: And that was, of course, radio
22 sets, and then there was the T.V. growth which as you
23 say was after the C.B.C. got going.

24 MR. MARRS: This is the thing, of course, that
25 we are trying to avoid having happen again because when
26 you have that sort of mushrooming growth, it carried
27 with it certain inefficiencies. You cannot react to these
28 things as efficiently as you can if you have an
29 orderly growth, or when you move from 100,000 to 700,000
30 sets in about two years and from five manufacturers to



1 twenty-four and then back to twelve, this is the period
2 that you mentioned where the profits were very poor,
3 then, of course, after the market became saturated,
4 literally saturated it went into a very serious decline,
5 and then we had to live through that until the
6 replacement market and second set market started to
7 come into being.

8 Now what we are trying to avoid again in the
9 colour is that it has been retarded to such a point that
10 when it does open up that we mushroom again and move through
11 this very serious and unsettled growth.

12 THE CHAIRMAN: A very disappointing industry,
13 I would have thought, and you explain it to me as being
14 unsettled, which is the fact that it has grown in jumps
15 and then declined after it jumped.

16 MR. MARRS: That is correct. I would say the
17 black and white market today, in the last two years,
18 has tended to stabilize because you are now entering
19 into the type of normal growth that most consumer
20 durables experience, and this is what I would like to
21 see maintained. The orderly growth of an unsaturated
22 product which will be maintained at a fairly steady
23 rate over a period of years just through the replacement
24 of worn out sets.

25 THE CHAIRMAN: It seems to me the number of
26 manufacturers has declined?

27 MR. MARRS: About half.

28 THE CHAIRMAN: It has come down to about half
29 in the last what, five years?

30 MR. MARRS: Well about the last seven years.



1 There has been little change in the last four years.
2 It went from 24 down to about 11 or 12.

3 COMMISSIONER PERRY: Mr. Chairman, there is an
4 aspect of the excise tax that I would like to pursue
5 with the witnesses. They will probably recall quite
6 well that for some time the revenue was earmarked for
7 the C.B.C. and in the time that this change was made,
8 that it was deemed to be something approximately in lieu
9 of the old radio license fee and that this, in a sense,
10 was an easier way of collecting a user charge on people
11 who were enjoying the benefits of the C.B.C. I think
12 the Fowler Report rejected that theory and in fact the
13 revenue is no longer earmarked but do you find any of
14 this philosophy remaining in Ottawa that this is, in
15 effect, a charge on people who have the privilege of
16 using the national service?

17 MR. MARRS: It is not clearly on the surface.
18 To say that we find that it exists here in Ottawa -- we
19 would say that it is somewhat submerged but I believe that
20 it seems to be available for use at the appropriate time.

21 COMMISSIONER PERRY: Last ditch argument.

22 MR. HARRIS: The answer is yes. I think it
23 is almost inescapable. We run into this at some point
24 in the discussion on excise tax.

25 COMMISSIONER PERRY: Sooner or later you get
26 to it?

27 MR. HARRIS: Yes.

28 COMMISSIONER WALLS: You have many products
29 under Section 5 that have no direct cost or reliance
30 on the C.B.C. Your phonographs and many other products.



1 MR. MARRS: Yes, and the situation has changed
2 so radically with the introduction of independent
3 stations, and so on.

4 COMMISSIONER WALLS: I think, of course, your
5 arguments are reasonably logical but the position that
6 we are in ---

7 COMMISSIONER PERRY: I was not questioning the
8 logic of their argument. I wanted to see what the
9 thinking was in Ottawa. Whether there is some remnant
10 of this.

11 THE CHAIRMAN: Of course, I would like to know
12 how they refute that too.

13 MR. HARRIS: It arose here today in answer
14 to Mr. Perry. It arose here today finally. It always
15 does.

16 THE CHAIRMAN: And when it does, do you say it
17 is not a proper way to raise money for that purpose?

18 MR. HARRIS: Absolutely.

19 THE CHAIRMAN: What do you recommend is the
20 way to raise money for that purpose?

21 MR. HARRIS: There are various ways but the
22 general taxation is about the only way to describe that.

23 COMMISSIONER PERRY: In fact this is what the
24 government is doing itself now.

25 MR. MARRS: I think as a product line by
26 paying our normal 11 per cent tax, that we assist, as
27 all other products do in contributing to the cost
28 inherent in running the government.

29 THE CHAIRMAN: You say that your product
30 should not contribute more than other products?



1 MR. MARRS: That is correct.

2 COMMISSIONER WALLS: The logical answer to
3 that is we as a Commission may have to find something
4 to replace not only your product, but practically
5 every product that is under excise because people have
6 appeared before us, all with quite legitimate arguments

7 for instance, people who manufacture shaving
8 soap and find it taxed, whereas other soaps are not,
9 there is argument in every case. We have got in the
10 neighbourhood of about \$200 million of excise tax that
11 is all covered with equally good arguments to what you
12 are presenting.

13 Have you any recommendations to give to us
14 as to where we are going to get that revenue now? Or
15 another question: Have you any thoughts as to what
16 should be the deciding factor as to products that
17 should be taxed higher than others?

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1 MR. MORRIS: If I may ask for some clarification
2 here on this point, because I am not clear in my mind,
3 excise tax to me has been a tax levied for a specific
4 purpose, that purpose being primarily to discourage the
5 sale of the particular product or classifying it in
6 such a manner that there is some discouragement factor
7 there. Is this in fact correct, or is it not?

8 THE CHAIRMAN: I haven't got the vaguest
9 notion.

10 COMMISSIONER WALLS: I have never heard this
11 before. I don't think anybody would want to discourage
12 anyone using shaving soap or matches. I think we have
13 had two concepts put before us; one it was a luxury tax
14 and ~~the~~ other that it was on a number of articles on which the trade
15 could bear an additional tax, and perhaps the second
16 is the more logical of the two.

17 MR. MARRS: Well, may I ask the question a
18 little differently. We have over the period of the last
19 few years removed excise tax from other products, on
20 refrigerators, ranges, laundry equipment -- we have re-
21 moved it from automobiles. Why did you remove it from
22 those and not on television?

23 COMMISSIONER WALLS: Fortunately we weren't on
24 the Royal Commission at the time.

25 THE CHAIRMAN: ~~On~~ the Minister of Finance.

26 MR. MARRS: I would think if one were to seek
27 deeply into the reason maybe the same reason could
28 apply to our products.

29 COMMISSIONER PERRY: I think this was a tribute
30 to the high cultural level your industry reached, much



1 higher than toilet soap. It is the sort of attribute
2 you could do without.

3 MR. MARRS: The effect of excise duties on
4 a high unit value is, of course, greater in one sense,
5 certainly in affecting its ability to compete against other
6 products in the same field, I am not in a position to
7 speak about such things as detergents or bleach.

8 MR. GARDNER: We can say excise tax was levied
9 on our consumers product as a war-time measure, presumably
10 for the purpose of curtailing production.

11 THE CHAIRMAN: I think your representations
12 on these matters should be taken elsewhere from here.
13 We are limited in the task which is assigned to us. It
14 is up to you to carry on.

15 MR. GARDNER: We recognize that, Mr. Chairman.
16 I was anxious that wherever we might have some sort of
17 reception our point should be made.

18 THE CHAIRMAN: That is fair enough and we are
19 very grateful to you for bringing this up. It is something
20 we are most concerned with.

21 MR. HARRIS: May I just read a sentence or
22 two to you. We haven't incorporated this statement in
23 this particular submission. I think it has been made
24 by other organizations. Nevertheless it is the basic
25 philosophy that we hold in this connection:

26 "If in the next budget the 15% excise
27 tax could be eliminated the end result
28 would be increased sales, higher production,
29 a better industry contribution to the
30 unemployment problem and an increased industry



1 "capacity to take a larger share of the
2 new crop of job seekers released each year
3 by our schools and universities. In
4 addition, the Federal Government would
5 benefit from increased sales tax, cor-
6 poration and personal income tax revenues."

7 In other words there is a pretty substantial advantage.

8 COMMISSIONER GRANT: I want to refer to some-
9 thing that came up briefly a little while ago. This is
10 a question of research. First of all do you find that
11 the research of the industry is handicapped by the 15 per
12 cent excise tax?

13 MR. MARRS: Are you referring...

14 COMMISSIONER GRANT: For instance, in your
15 own company, Canadian Westinghouse, do you carry on your
16 own research here or is it entirely....

17 MR. MARRS: I just want to make sure that I
18 understand how you define the area of research. If
19 we are talking about consumer products or are we talking
20 about electronic defence research?

21 COMMISSIONER GRANT: We are talking about the
22 manufacture of ~~products~~ development of new products.

23 MR. MARRS: Consumer product or electronics?

24 COMMISSIONER GRANT: Let us narrow it down.

25 MR. MARRS: May I first try to answer this
26 way: you specifically asked about our company. Our
27 company is decentralized and in the electronic field we
28 have three separate divisions, one of which is concerned
29 with the manufacture of tubes, one which is concerned
30 with electronic defence work, doing much work with the



1 Federal Government, and then my own area which concerns
2 consumer products. Are you asking the question and dir-
3 ecting it specifically to consumer products?

4 COMMISSIONER GRANT: I am referring to the
5 first and second.

6 MR. MARRS: Our company does do considerable
7 research in Canada concerned with the electronic industry
8 in total.

9 COMMISSIONER GRANT: For instance, do you
10 do research in coloured television here?

11 MR. MARRS: No.

12 COMMISSIONER GRANT: You rely on your parent?

13 MR. MARRS: That is correct.

14 COMMISSIONER GRANT: We had before us about
15 two weeks ago representatives of national companies,
16 many of whom the parent company was foreign. I think I
17 may just use this case to stray away from the briefs
18 a bit and to ask you if you would wish to comment on
19 it. In regard to your export trade do you find that
20 you are entirely free to compete for export trade against
21 your parent company?

22 MR. MARRS: In our particular instance, and
23 I can only speak for my own company in this regard, we
24 are completely free. The problem arises from the fact
25 that in many instances the product that we are attempting
26 to sell, export to foreign markets, is close to identic-
27 al and therefore we find it increasingly difficult to
28 compete. This is more applicable really in the appliance
29 field, what they call the brown goods, the furniture
30 type -- you can make extensive differences. We do in



1 our cabinets. The cabinets containing television sets
2 are entirely designed, styled and made in Canada and
3 have no similarity whatever with the American form, so
4 therefore moving into that market we have sufficient
5 difference that we can stand directly on our own.

6 While we are completely free in every area
7 naturally those areas where we can be most effective
8 is where we have some preference in duty.

9 COMMISSIONER GRANT: It was also pointed out
10 at the same time you have an advantage in that the parent
11 organization had set up, for instance, a sales organ-
12 ization abroad which is available to you at less cost
13 than if you had to do it yourself.

14 MR. MARRS: Yes, in fact this is so in our
15 company. We do, of course, have an export division in
16 Canada which sells our products abroad. In some areas
17 we use the services of our parent export company.

18 MR. GARDNER: Could I present one variation
19 on that speaking on behalf of R.C.A. Victor. Our prob-
20 lem is not the same as Canadian Westinghouse in that
21 the products we manufacture for export are generally
22 those which are not manufactured by our parent company.
23 They have assigned certain capabilities to us and said
24 you shall make this product and export it as you see
25 fit, but don't duplicate what we are doing.

26 COMMISSIONER GRANT: Would the majority of
27 it be within the Commonwealth? Is that where you look
28 for your principal markets?

29 MR. GARDNER: Elsewhere.

30 COMMISSIONER GRANT: World-wide?



1 MR. GARDNER: World-wide.

2 MR. DUNN: I think as a general broad
3 statement to answer your specific questions there are
4 no restrictions imposed by our parent companies that
5 say specifically you shall not go into this market so
6 that the restrictions are self-imposed by our own limit-
7 ations by what we can offer these markets. I think this
8 is generally true of the companies I have talked to,
9 they will follow a specific product until it is an
10 identifiable item and then it will find its way
11 into the American markets.

12 COMMISSIONER GRANT: Thank you very much
13 for your answers. I did feel when I asked the question
14 that perhaps it wasn't entirely within the purview
15 of your brief, but your answers have been very interest-
16 ing.

17 THE CHAIRMAN: May we move on to income
18 tax. In income tax I would refer to paragraphs 27,
19 28 and 29 in which you speak about export incentives.
20 There has been a great deal of talk about that in
21 Canada. As you probably are aware the argument as
22 between the type of incentive which has just been re-
23 moved from the Act and which related both to exports
24 and domestic production as against export incentives
25 has been it is probably advisable to provide incentives
26 for persons competing with imported foreign products
27 as compared to providing incentives to sell Canadian
28 goods on the export market. I think that is the reason
29 why the previous incentive was there in the way it
30 was. Do you see greater merit in the export of Canadian



1 goods than in reducing imported goods with Canadian
2 produced goods?

3 MR. GARDNER: I would think so. I would
4 think the field for export is much larger than the field
5 for reducing imports. I think practically all the
6 members of the electronic industry have had a programme
7 for many, many years of reducing imports, making in
8 Canada, buying in Canada. I suppose you ultimately reach
9 a point where there is an irreducible minimum.

10 THE CHAIRMAN: Do you believe that some
11 form of tax abatement to encourage exports could be de-
12 signed which would not conflict with the General Agree-
13 ment on Trade and Tariffs?

14 MR. GARDNER: I confess I have wondered
15 about that and I don't know the answer.

16 THE CHAIRMAN: It is a difficult one.

17 MR. GARDNER: It is a very difficult one.

18 THE CHAIRMAN: The word in there seems
19 to be "subsidy", and whether tax abatement is the same
20 as subsidy I would like to know. Have you any opinion?

21 MR. GARDNER: I would confess this is the
22 reason that we took the opportunity of quoting Section
23 40 A. This was the Section already in the law. We
24 were hardput to come up with any valid suggestion that
25 relates to export but Section 40A seemed to be in
26 there.

27 THE CHAIRMAN: I don't think it is too hard
28 to work out the mechanism.

29 MR. GARDNER: I wouldn't think so.

30 THE CHAIRMAN: Various countries have pro-



1 vided export incentive by way of income tax incentive.

2 MR. GARDNER: Yes.

3 THE CHAIRMAN: The formula is not too
4 difficult. I am uncertain whether the principle would
5 get us into trouble or not.

6 MR. GARDNER: I assume having quoted
7 Section 40A it must be legal.

8 THE CHAIRMAN: Are there any other questions
9 on the matter of tax incentives?

10 COMMISSIONER WALLS: There is one question
11 that rather disturbs me again. I mentioned it previous-
12 ly. If you are dealing with sets you can use export
13 incentives, but if you are dealing with the context of
14 your briefs, dealing with tubes, do you really think
15 it is possible to get any form of incentive that would
16 put you in a position of competing with a product that
17 costs you \$1.00 when you admit other exporting countries
18 produce^{it}/at 36 cents?

19 MR. GARDNER: When these paragraphs were
20 inserted we didn't have tubes particularly in mind but
21 rather the heavy apparatus.

22 MR. DUNN: I think we could find more
23 products within our broad area in which we can offer
24 for export if we had such incentives and did so compet-
25 itively.

26 THE CHAIRMAN: Such an incentive being a
27 rebate of income tax, is that what you mean?

28 MR. DUNN: Right, sir.

29 THE CHAIRMAN: I was wondering whether
30 a rebate of income tax would have that kind of effect.



1 After all income tax is something paid on the profits
2 of the company. I suppose it is true when one sits
3 down and measures the benefits you get from export trade
4 you must take income tax into consideration, and probably
5 it is done.

6 If the income tax were abated on export
7 trade do you think in most cases that would represent
8 the kind of difference that would put people into export
9 business? It would seem to me that it wouldn't be as
10 effective as fixed cost that would come in irrespective
11 of whether you made a profit, am I correct?

12 MR. DUNN: Yes. I would say there may be
13 better answers, or maybe combinations with this to have
14 the right answer. It is not a black and white case,
15 are we going to do any exporting at all. It is a case
16 of how much exporting. All of us are doing some ex-
17 porting. How far can you go in doing this depends how
18 much incentive is provided.

19 THE CHAIRMAN: You feel if you weren't
20 going to pay income tax on the profit that came from in-
21 creased exports, you think these increased exports would
22 occur?

23 MR. DUNN: Yes, it would be more likely
24 to increase. Mind you, you can assimilate in this area --
25 how far do you break it down as to where your income
26 comes from.

27 THE CHAIRMAN: From the Government's point
28 of view a concession in tax is something designed to
29 give out certain benefits. We are uncertain to what ex-
30 tent this measure would give these benefits, the exports



1 would increase.

2 MR. HARRIS: Here we refer to over
3 the past period.

4 THE CHAIRMAN: It would increase even
5 with present tax rates. The Government must decide
6 whether it is valuable to give these concessions to
7 get some increase.

8 COMMISSIONER PERRY: I heard representatives
9 of international companies make argument that the parents
10 might deliberately put more production for export into
11 Canadian subsidiaries if there was such a concession.
12 Does this sound like a plausible sort of line for your
13 present group?

14 MR. GARDNER: I think that might be one
15 minor circumstance. There would be a lot of other cir-
16 cumstances that would determine whether an article
17 was manufactured in Canada.

18 COMMISSIONER PERRY: I remember one case
19 where Canadian management was positive that a very large
20 amount of business would be put into the Canadian
21 subsidiary if this were the position.

22 MR. MARRS: It would depend to a considerable
23 extent on the present income position of the parent
24 company and the subsidiary.

25 COMMISSIONER PERRY: Oh yes, I am not saying
26 this would become the...

27 MR. MARRS: There would be other things
28 related to this.

29 COMMISSIONER PERRY: ...absolute governing
30 factor, but in some situations it might have that



1 effect.

2 MR. MARRS: I think under certain conditions
3 it might occur.

4 MR. GARDNER: Presumably if everything
5 else were equal this might occur.

6 COMMISSIONER GRANT: Consider for a moment,
7 if you will, the market of the United Kingdom. I should
8 think in the product field, television, radio and so
9 on, that this would be a highly competitive market for
10 Canadian imports. In the household appliances the
11 impression is that they haven't made the same strides in
12 developing household appliances, refrigerators and so
13 on as we have in this part of the continent, in this
14 part of the world. What has been the experience, would
15 you tell us what has been your experience in the
16 export of household appliances to the United Kingdom?
17 Are you able to compete successfully there?

18 MR. MARRS: I think, Mr. Grant, first of
19 all it is important to understand that the market
20 in the U.K. demands a somewhat different product than
21 is produced here in Canada in terms of size, in terms
22 of different features. The type of product we produce
23 here in Canada in appliances, a major appliance, fits
24 into the so-called luxury market in the U.K. which
25 approximates about 4 per cent of the total market.
26 This is a market that the U.K. manufacturers don't
27 participate in, don't go into. It isn't sufficiently
28 large at this stage in development for them to tool
29 up for and so on. They have that market at the moment --
30 it is fairly free. The movement of some facilities from



1 Canada over there where they actually produce themselves --
2 as an example in the United Kingdom the average size
3 refrigerator is 6 cubic feet. We don't even produce
4 6 cubic feet refrigerators. Our smallest in Canada
5 usually is a 10 foot refrigerator.

6 -----



1 So, therefore, we don't meet the mass
2 market nor can we hope to meet the price.

3 COMMISSIONER GRANT: The ones that give
4 the larger unit?

5 MR. MARRS: Yes. As their requirements
6 increase, obviously they are going to manufacture those
7 and this will start to squeeze us out of the market.
8 It is becoming increasingly apparent to me that your
9 ability to compete in ~~these~~ markets is much better in the
10 luxury class where you are not so sensitive to price.

11 COMMISSIONER GRANT: But your volume is
12 much more?

13 MR. MARRS: Well the matter of volume,
14 of course and labour costs and everything else, trans-
15 portation, all of these things are factors in the ul-
16 timate cost of getting the product to the market place,
17 so that we as an industry, and I am talking major app-
18 liances, are certainly most effective in striking at
19 the so-called luxury market; a very small segment. Of
20 course, in larger populated countries, this can still
21 be a considerable market. I don't know whether that
22 answers your question.

23 COMMISSIONER GRANT: My question really was
24 posed to bring out whether or not you find yourself
25 competitive to-day uunder our existing tax legislation
26 with such a market as that?

27 MR. MARRS: Well again we are not really
28 competing against like products. They are sufficiently
29 different that the spread of price between a 6 cubic
30 foot refrigerator in the U.K. and one we send over, which



1 is a 10, naturally has some effect on our ability to
2 attract the consumer away from a 6 to a 10 at an addition-
3 al cost which, naturally, is to some degree a profit.

4 THE CHAIRMAN: Thank you Mr. Knapp,
5 gentlemen. You have been very helpful to us indeed.
6 I think we understand the points that you have put be-
7 fore us. If you think we have missed something, now
8 is your chance to say so, otherwise we will consider
9 that we have covered everything and we will continue to
10 ponder what you put before us. Thank you very much
11 indeed.

12 MR. KNAPP: Thank you.

13 THE CHAIRMAN: Mr. Secretary is that all?

14 THE SECRETARY: May I enter one brief into
15 the record? The submission of Professor Michael J.
16 Hare of the University of Toronto, which I would like
17 to enter into the record as Exhibit 261.

18 We will now stand over until the 25th of
19 November at 9:30.

20
21 ---EXHIBIT NO. 261: Brief of Professor Michael
22 J. Hare of the University of
23 Toronto.

24 ---Whereupon the hearing adjourned until November
25 25, 1963 at 9:30 A.M.

26
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28 -----
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30

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.: DATE:

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3 ROYAL COMMISSION ON TAXATION
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8 Hearing held in the Centre
9 Courtroom, Exchequer Court
10 of Canada, Supreme Court
11 Building, Ottawa, November
12 25, 1963.
13

14 Mr. Kenneth LeM. Carter Chairman

15 Mr. J. Harvey Perry

16 Mr. A. Emile Beauvais

17 Mr. Donald M. Grant

18 Mrs. S.M. Milne

19 Mr. Charles E.S. Walls
20

21 LEGAL ADVISOR

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27 SECRETARY

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Ottawa,
November 25, 1963

--- On resuming at 9.30 a.m.

THE CHAIRMAN: Mr. Secretary, this brief was due to start this morning at ten o'clock. We are all here, so I think we might as well start now.

THE SECRETARY: Thank you, Mr. Chairman. Good morning, Commissioners. The brief to be presented this morning is on behalf of the Club de Hockey Canadien and Maple Leaf Gardens Limited.

This brief is being presented by Mr. G. Ross McPhee, Chartered Accountant, who is here this morning to speak to the brief, which I would like to enter in the record as Exhibit 262.

--- EXHIBIT No. 262: Brief of Club de Hockey Canadien and Maple Leaf Gardens Limited.

THE CHAIRMAN: Good morning, Mr. McPhee.

MR. MCPHEE: Good morning, sir.

THE CHAIRMAN: We have received your submission with interest, and we will have a few questions to put to you.

You are a practising accountant, and am I to assume you have been retained by these two organizations, the Club de Hockey Canadien and Maple Leaf Gardens Limited to put forward this on behalf of their employees who are professional hockey players?



1 MR. McPHEE: That is correct.

2 THE CHAIRMAN: And your clients are
3 the two clubs mentioned?

4 MR. McPHEE: Yes; for the purpose of
5 this submission.

6 THE CHAIRMAN: Yes; thank you.

7 Before we address ourselves to the
8 submission, have you got anything you would like to
9 put before us in addition to what you have here?

10 MR. McPHEE: Yes. I would like, first
11 of all, to indicate to the conclusions put forward in
12 the summary of contents.

13 I submit that the professional athlete
14 pays more income tax over his lifetime than does any
15 other profession, due to a combination of premium
16 earnings and the graduated tax rates.

17 My recommendations are that, taking
18 into account various factors such as the careers of
19 professional athletes and their life time earnings
20 potential, they be permitted to file separate returns of
21 income on which they would report only income derived
22 from competition in professional athletics.

23 While I am representing only hockey
24 clubs, this submission deals with all professional
25 athletes and should not be taken as dealing only with
26 hockey players. This is important, also, in the case
27 of say, football players.

28
29 -- A short recess
30



1 THE CHAIRMAN: Well, Mr. McPhee, where were we,
2 do you remember?

3 MR. MCPHEE: Yes, Mr. Chairman, but I should
4 like to recap a little. The point I was making was
5 that the progressive rate structure of our tax system
6 results in inequities. The professional athlete is
7 the best example to point up the inequities of our
8 progressive rate structure.

9 There are several factors to take into account
10 as to why I feel that professional athletes should get
11 preferred treatment, special treatment. Firstly, the
12 professional athlete's life is directly related to his
13 physical capabilities, and that life is short.

14 Secondly, his physical capabilities deterior
15 with age alone, a factor over which he has no control.

16 Thirdly, his earnings during his professional
17 career are in inverse proportion to his age span when
18 compared with other people who earn their income
19 gradually over their lifetime.

20 And lastly, the professional athlete, by
21 contributing to his profession during the years twenty
22 to thirty years sacrifices his education and business
23 experience during that time, so that at the end of his
24 professional career he is ill-equipped to earn other
25 than very ordinary income for the rest of his life, with
26 the result that the professional athlete does pay more
27 income tax during his lifetime than the average person
28 even earning the same income. I think that is basically
29 my case, but I would welcome any questions you might
30 have in this regard to cover other points which will



1 come up.

2 THE CHAIRMAN: Thank you, Mr. McPhee. You have
3 compared the professional athlete with the average tax-
4 payer, pointing out that he pays more taxes on the same
5 income. I wonder if it is a fair comparison to work
6 this out having regard to the average taxpayer. The
7 professional athlete is physically better equipped than
8 the average man, and in a strong body one usually finds
9 a strong mind. I suspect that most professional athletes,
10 after they graduate from their professional activities,
11 generally earn more than does the average man. I have
12 no idea what they all do, but one sees evidence of this
13 in employment as radio announcers, running sporting goods
14 stores, coaching teams, and so on, most of which
15 activities are better paid than the average taxpayer.
16 Am I not correct in that?

17 MR. MCPHEE: In my experience in the past two
18 weeks, Mr. Chairman, when I have had an opportunity to
19 discuss the nature of their activity after their
20 professional careers have ended with a brief number both
21 of retired and active players, I came to the conclusion
22 that the professional athlete does not on the average
23 earn more.

24 Now, to add to your list of post-professional
25 career earnings, I could suggest taxi drivers, tavern
26 keepers, waiters, etc. I do not entirely agree with
27 your statement that a sound mind follows from a sound
28 body. Most of the people I have dealt with I would
29 rank as almost less than average as far as a sound mind
30 is concerned, comparatively speaking.



1 A great many of these people, while we have the
2 situation that the football players generally go to
3 college in the United States, or even in Canada, the
4 experience there is that most of them have taken a very
5 simple course of education, perhaps physical education.
6 One majored in geography, but in each and every case
7 they concluded that after their professional life is
8 over the best prospect they could hope for for a future
9 career would be in the teaching profession, perhaps as
10 a coach. They have to start at their age, being it 30
11 or 32 years of age, perhaps to increase but at least
12 to complete any academic ventures they have started, and
13 they must start low on the scale, with high schools or
14 even with public schools, so as to start out on a coaching
15 career.

16 THE CHAIRMAN: Thank you. I wish you could
17 provide a little stronger support for the fact that you
18 believe your average earnings would be \$4,365.00, which
19 is the national average.

20 MR. MCPHEE: With the assistance of Mr.
21 Clarence Campbell of the National Hockey League, I have
22 prepared a questionnaire which is currently being
23 circulated to 151 retired hockey players. The
24 questionnaire is designed basically to find out what
25 their income level is, but time has not permitted the
26 calculation of any results at this stage.

27 In speaking with him though, we did run
28 through the entire 150 people, and I would say that he
29 was intimately acquainted with almost 100 of them. He
30 knew what they were doing at this time, and generally



1 speaking what their condition was.

2 As I say, all I can offer at the moment is an
3 impression, but the impression is that of these 100
4 people of which he was aware there were only ten who had
5 business interests which might produce income. Others
6 might appear on the surface to have business interests,
7 such as, if I may think of an example, a tavern owner;
8 but the situation in the particular case was not that
9 he owned the tavern; he was financed by other people and
10 his name was lent to the organization, and he drew but
11 a meagre salary. That is one example of appearances in
12 some cases being deceiving.

13 There is no doubt whatsoever that some
14 professional athletes do earn a good deal better than
15 the average income after their professional career is
16 over. I can think of the case of one or two in this
17 situation, but here again appearances are deceiving. I
18 think "Rocket" Richard is a good example. He is indeed
19 a well known person in Montreal and his name is traded
20 in a lot of circles. He has definite employment, but
21 by his own admission his business ventures have been
22 wracked with failure during his career.

23 COMMISSIONER WALLS: Earlier on in your brief,
24 Mr. McPhee, you stated when talking about the average
25 professional hockey player you include the professional
26 in both major and minor leagues. Then in Appendix C you
27 say that the average professional hockey player earned
28 \$14,415.00, and then further down you state that there
29 are 461 active professional hockey players.

30 With regard to \$14,415.00 a year, I assume from



1 the statement you have made that that is the average
2 earned by all professional hockey players in both
3 leagues. What, then, would be the average income in
4 the National Hockey League?

5 MR. McPHEE: I admit, sir, to an error. The
6 average of \$14,000.00-odd is not all professional. That
7 is the National Hockey League.

8 COMMISSIONER WALLS: That is the National
9 Hockey League, is it?

10 MR. McPHEE: Yes, sir.

11 COMMISSIONER WALLS: I thought that was right,
12 but by your statements throughout the brief it led me
13 to believe otherwise.

14 The other question I should like to ask is
15 this. Do you recognize that what you are asking
16 for athletes should perhaps/made equally available to
17 anyone who has fluctuations in income? If that is so,
18 should it not be worked in reverse? For instance,
19 rather than a heavy salary which the athlete makes in
20 his early years, for the same number of years or a
21 greater number of years a young doctor makes nothing.
22 Later on in life, should he not then be able to average back to
23 cover these ten years in which he made little money, by
24 the same token as you want to average forward for the
25 rest of the lifetime for an athlete?

26 MR. McPHEE: No, sir, I do not believe so. I
27 think there are two factors involved. First of all,
28 the doctor enters into his profession or his studies for
29 his profession with both feet on the ground. He is not,
30 I do not think, swayed. To put it this way, he knows



1 that he will be earning premium income in his later life.
2 He chooses medicine as an outlet not only for his own
3 abilities, but fully cognizant of the income level which
4 he might attain during his entire lifetime. That is,
5 once he has finished his education.

6 Generally speaking, doctors would commence at
7 age 28 and go to age 63, according to the figures set
8 up in Appendix A, which gives him a working span of
9 thirty-five years. On the other hand, the professional
10 athlete must start his professional career at a very
11 early age, I would say when he was 14, 15 or 16. Then
12 he knows pretty well whether he has the talent and
13 potential to enter into a professional career. I
14 suggest that at this age a boy is swayed by the idolatry
15 of the public at large. There is also the increasing
16 commercialism attached to professional sport, and
17 naturally the opportunity to make a large income.

18 But here again I am not so sure -- at least,
19 none I have spoken to weighed all these factors together when
20 they entered professional life. They realized that it
21 was short and that the money was exceptional. Whether
22 it was because they chose professional athletics as
23 their career rather than something more in the arts and
24 sciences I think is given ill consideration at that
25 stage.

26 I also agree with the other point you made,
27 that income, what I call premium income, might be
28 averaged. In this situation I have recently come
29 across the new federal income tax bill in the United
30 States, which provides averaging almost on the same



1 basis that I have set out. If I may just quote:

2 "The new averaging relief
3 applies to all individuals, with
4 the few exceptions stated below.
5 In practice it will primarily
6 benefit professional persons,
7 athletes, artists, and authors".

8 This income tax bill has passed the House of
9 Representatives, and it is now awaiting debate in
10 Congress in the United States. This is recognition of
11 the fact that there are peak earnings attached in a good
12 many professions.

13 Let us take, for instance, an accountant's
14 life, or a lawyer's. He may have one year that is
15 exceptional because of a set of circumstances. Perhaps
16 he should be allowed to average. I say that this is
17 where a progressive tax rate is almost implicative in
18 that type of income earning.

19 COMMISSIONER WALLS: Just one more question
20 which follows the statement you made earlier. While
21 your brief is being presented on behalf of two hockey
22 organizations, it is really presented on behalf of all
23 athletes. There are a number of professional football
24 players who are in the process of completing professional
25 careers right now, and I was just wondering whether
26 there is not a basic difference between hockey players
27 and football players, in that a professional football
28 player is an outcrop from a college education, even
29 though you said that in some cases it is a very minor
30 type of college education. Whereas hockey, perhaps,



1 starts in the outdoor rink and is into full swing before
2 the fellow has any chance to get a higher education.
3 So perhaps you have a different case for hockey than you
4 have against other forms of professional sport.

5 MR. McPHEE: Based on your suggestion, sir,
6 that football is an outgrowth of an academic career,
7 I am sorry I do not have an article with me today which
8 was in a recent issue of "Look" magazine, where the
9 emphasis was to put education back into football players.
10 We read consistently every year of the academic
11 scandals, if you wish, in the United States principally,
12 where football players are taken into colleges under
13 the guise of receiving education, and as soon as that
14 semester is finished they drop out of college, or
15 complete enough of their education to keep returning for
16 a couple of years.

17 The difference between football and hockey
18 players, in my opinion, is this, that the showcase for
19 football talent is the United States college right now,
20 and, to a certain degree, the Canadian college also.
21 Any person, I submit, who is seriously interested in
22 professional football makes pretty certain that he is
23 attached to a college in the United States, not
24 necessarily so much in Canada, because the emphasis in
25 the colleges here is not as great as it is in the
26 United States. Again I agree that the showcase for
27 hockey talent perhaps is the junior hockey leagues, the
28 so-called amateur leagues. It is a case of getting
29 into organized hockey at the age of ten or twelve, and
30 working up through the progressive system of the



1 Canadian Amateur Hockey Association. But I do disagree
2 with your suggestion, sir, that football is an outcrop
3 of university. I think that probably the reverse is
4 true.

5 COMMISSIONER PERRY: I realize that this would
6 not affect your argument one bit, but pension plans, as
7 you know, are one device for providing income. I
8 understand there is a pension plan in the National Hockey
9 League. Can you tell us something about the nature of
10 this plan?

11 MR. McPHEE: I am not particularly familiar
12 with all the details of the plan. That plan is a
13 contributory plan. The athlete does pay in \$300.00 or
14 \$600.00 -- I think it is \$600.00, if I recall from my
15 last discussion with Mr. Campbell. The clubs themselves
16 contribute an amount based on the salary in question.

17 As regards the pension plan itself, I cannot
18 really compare it with an ordinary pension plan of an
19 industrial or commercial concern. I would say it is
20 probably equally as good. But the one shortcoming it
21 has, I think, is that it is still based on age 65
22 primarily, where the professional athlete has, according
23 to insurance statistics, actuarial tables, no real
24 category. But the professional athlete may not get
25 too much benefit out of this pension plan, which starts
26 at age 60 or 65. He is eligible in the National
27 Hockey League to start taking his pension at age 50,
28 providing he has played three years in the National
29 Hockey League as an active player.

30 The pension at 50 is naturally much less than



1 it would be if he stayed on until he was sixty, but
2 that is the risk factor which enters into it.

3 COMMISSIONER PERRY: Are there pension plans
4 in any other area of professional athletics?

5 MR. MCPHEE: In Canada there is no pension plan
6 in Canadian football. As far as other sports are
7 concerned, I am certainly not aware of any.

8 COMMISSIONER PERRY: You understand that the
9 amount is fixed at \$300.00 or \$600.00, or something like
10 that?

11 MR. MCPHEE: That is the understanding I have,
12 sir, but I stand to be corrected.

13 THE CHAIRMAN: Mr. McPhee, I think I would be
14 more impressed with this submission had it contained
15 some provision for the logging up of funds, along with
16 the levelling out of tax. Certainly our system is
17 graduation, and one subject to such a system is certainly
18 subject to disabilities. Perhaps those disabilities
19 are more aggravating in the case of these people than
20 in other cases, but we all suffer because our incomes
21 go up and down.

22 There are provisions in other countries that
23 I am aware of where people who save a lot of money in
24 one or two years are able to purchase some sort of
25 annuity, thus logging up the money until later on and
26 paying tax when they receive the money. It is usually
27 regarded as being a cash receipt rather than an
28 accrual.

29 I would have hoped that you could suggest to
30 us a way in which the tax might meet the flow of cash



1 to the individual, rather than just a levelling out of
2 his tax account throughout his lifetime. It seems
3 to me that apart from the actual circumstances you are
4 setting up a notional form of tax. True, there are
5 precedents for this. I think the farmers and the
6 fishermen are one, but it goes a lot further than that.
7 In the interests of the professional athletes, in the
8 case of hockey players you say that they do not have
9 the opportunity for much education, so I should have
10 thought that they might be better served by some
11 deferment of their income, a long deferment, so that you
12 can lower the tax assessment on the high income earned
13 during their early years. If that were done it would
14 merely encourage them to spend a greater amount of
15 money, I should think.

16 MR. MCPHEE: Yes, sir, I agree. I did not
17 take my submission quite that far, simply because I think
18 this provides a vehicle where there are tax savings
19 which are apparent, and to my way of thinking it is
20 still the choice of the individual as to what he does
21 with his after-tax earnings.

22 THE CHAIRMAN: I think you are right in saying
23 that it is up to the taxpayer to do what he likes with
24 his funds. That is only to some extent compelling,
25 because the law, after all, does seek to tax his income.
26 I would sooner see a system where he could match his
27 tax to the flow of income.

28 MR. MCPHEE: My first idea was a tax that
29 matched the flow of cash, but I discarded that idea on
30 the basis that I could find no justification for a fixed



1 rate of tax on income for professional athletes where
2 it did not exist for anyone else. I am a hopeful
3 advocate of the theory that our tax system will result
4 in a flat rate tax at some future stage. The averaging
5 provision which I finally decided upon was a means
6 merely of alleviating the graduated rate scale and was
7 in line with certain provisions of the Tax Act which
8 seemed to favour averaging.

9 THE CHAIRMAN: It provides the professional
10 athlete with more available monies during the time of
11 earnings.

12 MR. McPHEE: That is correct.

13 THE CHAIRMAN: Spending money or saving money,
14 whenever it may be.

15 MR. McPHEE: Yes.

16 THE CHAIRMAN: That may be socially desirable,
17 but I think it would be more socially desirable in the
18 other direction suggested.

19 MR. McPHEE: It is tying up the tax saving
20 for their future benefit.

21 THE CHAIRMAN: Which there is precedent for.
22 Certainly pension plans do that.

23 MR. McPHEE: I agree. As I said before, I
24 think this provides the vehicle for such a thing, but
25 I think it would have to be something which the Leagues
26 themselves can actively promote. I think there would
27 still be the same reticence as there often is now to
28 deductions from income for various things including
29 pension plans normally participated in by the ordinary
30 individual.



1 THE CHAIRMAN: I think there should be some
2 responsibility in this regard beyond that for the normal
3 person. They are inducing young fellows skilled in the
4 game of hockey to play hockey, and from what I have
5 heard their persuasive powers are very well developed.
6 But when those powers are applied to youngsters of this
7 age, I think they should do everything possible to see
8 that the end result of all this is a happy one.

9 MR. McPHEE: Yes, sir, I agree, and I do not
10 think anyone is more keenly aware of the welfare of
11 hockey players than the club owners themselves and the
12 league. To date the market (so-called) for hockey
13 and football players is such, and for professional
14 athletes themselves, that it is still in a very
15 progressive state where the athlete may not recognize
16 the added value of receiving less cash now and more
17 security over his lifetime. I think it is definitely
18 progressive. As I say, the pension plan itself in
19 the hockey league is new, relatively speaking. It
20 will probably come to the football clubs too. They
21 do not have as tight an organization at the moment as
22 the National Hockey League.

23 If I might just refer to this letter from Mr.
24 Selke, the Managing Director of the Club de Hockey
25 Canadien, he says:

26 "I have seen many very fine
27 men come and go in my fifty years'
28 connection with the sport and have
29 always felt that the way they have
30 been taxed has been gravely unjust.



1 Their careers are short and
2 they have to drop back into very
3 ordinary wage brackets at a time
4 when all other professional men
5 begin to reach the status of top
6 men in their businesses. Doctors,
7 lawyers and most other professional
8 men continue to improve their
9 earning power until they are well
10 into their sixties compared with
11 professional athletes, who finish
12 earning big wages when they reach
13 the age of thirty, then have to
14 revert to considerably lower
15 incomes".

16 As an individual both he and Mr. Smythe are
17 keenly aware of the situation of their athletes and do
18 feel protective towards them. In a good many cases
19 now, instead of taking the young hockey players out
20 of their home towns and high schools, they are providing
21 inducements such as education facilities and employment
22 for their families, if that is necessary. But these
23 are still inducements to get the players as closely
24 under their wing as possible.

25 At this early stage in their careers I think
26 the protection is good for the young player. But this
27 is a developing thing, and I see it a long time away
28 in football at the moment, because the football clubs
29 are still on the same basis protective towards their
30 players. I do not think it has yet cracked that



1 barrier of being able to say: "We will pay you
2 \$15,000.00, but have ten now and we will put five away
3 for you for your later years". The football market
4 seems to be such that: "\$15,000.00 is fine, and if you
5 want to give me something else, add it on top", which
6 does not make much business sense to the club.

7 COMMISSIONER GRANT: I must say that Mr.
8 Selke's use of the word "professional" in this letter
9 is not comparative when applied to a hockey player and
10 a professional man such as a doctor or lawyer.

11 MR. MCPHEE: I think I would go back to the
12 Chairman's remark that perhaps Mr. Selke did take
13 poetic license, but I think it is all part of his
14 persuasive powers.

15 THE CHAIRMAN: Are there any further questions?
16 Then thank you very much indeed, Mr. McPhee. I think
17 we have the point very clearly, and I can assure you
18 that it will be considered. This is not the only
19 suggestion which has been put forward to us on behalf
20 of averaging. It is the only one as applied to
21 professional athletes, but in some other areas there
22 also seems to be a demand for averaging procedure
23 beyond those presently applied. They are certainly
24 matters we must consider very fully. We thank you indeed
25 for your assistance, and we well recognize that it
26 is something of importance to our tax laws.

27 MR. MCPHEE: Thank you, sir.

28 THE SECRETARY: I have one brief I should
29 like to enter into the record, sir. There was a
30 letter received on November 14 from the National



1 Secretary of the Imperial Order of the Daughters of the
2 Empire. I should like to enter this letter into the
3 record as Exhibit 263.

4 ---EXHIBIT NO. 263: Letter dated November
5 14, 1963 from the
6 National Secretary of
7 the Imperial Order of
8 the Daughters of the
9 Empire.

10 THE CHAIRMAN: Then we will stand over until
11 9:30 tomorrow morning.

12 ---Whereupon the hearing adjourned at 10:55 a.m.
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ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.:

DATE:

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1
2 THE ROYAL COMMISSION ON TAXATION

3 Hearing held in the Centre Court
4 Room, Exchequer Court of Canada,
5 Supreme Court Building, Welling-
6 ton Street, Ottawa, on Tuesday,
7 the 26th day of November, 1963.
8

9 COMMISSION:

10 MR. KENNETH LeM. CARTER -- Chairman

11 MR. J. HARVEY PERRY

12 MR. A. EMILE BEAUVAIS

13 MR. DONALD G. GRANT

14 MRS. S. M. MILNE

15 MR. CHARLES WALLS
16

17 LEGAL COUNSEL

18 MR. J. L. STEWART
19

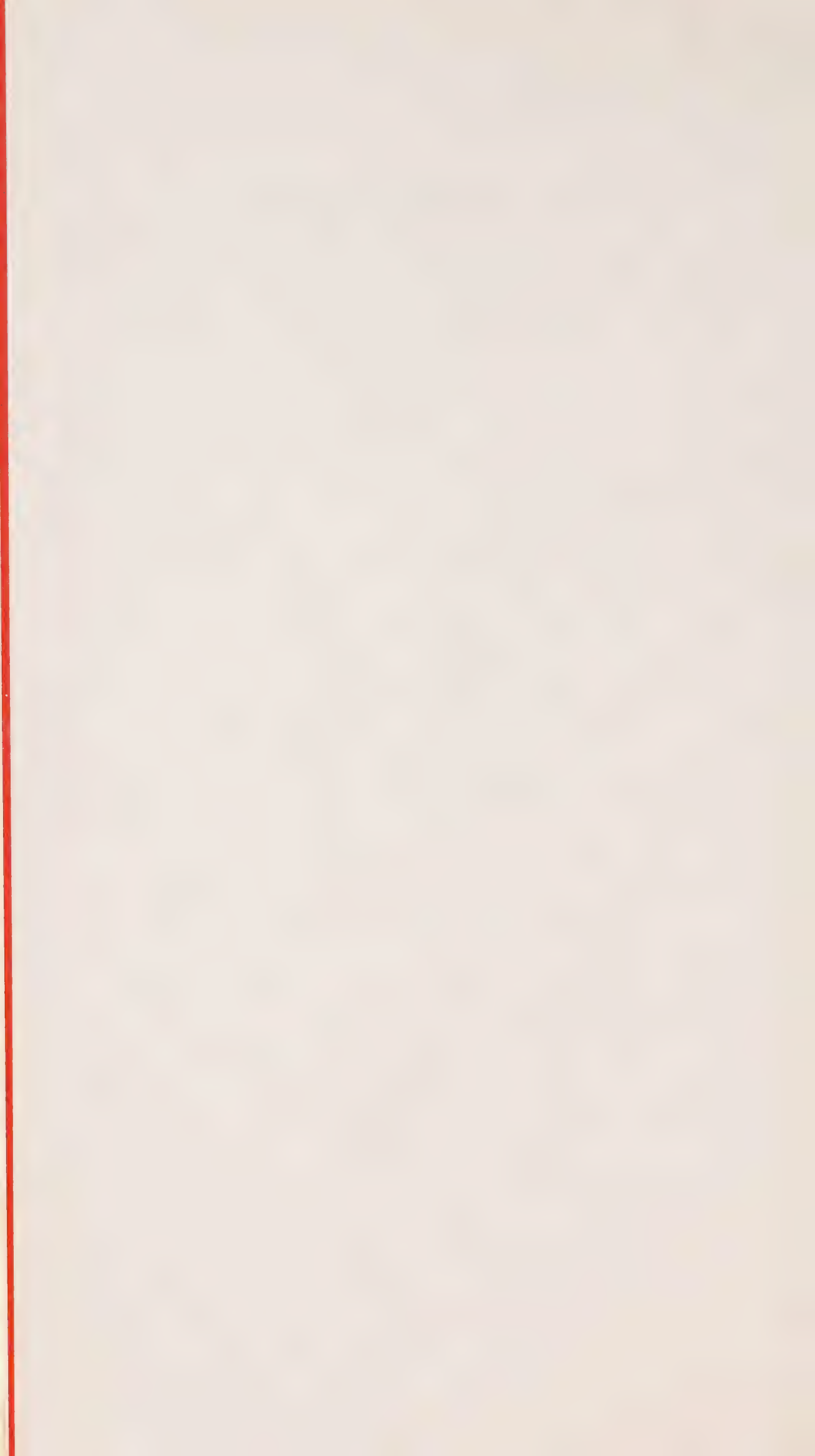
20 RESEARCH DIRECTOR:

21 PROF. D. G. HARTLE
22

23
24 SECRETARY

25 MR. G. L. BENNETT
26
27
28
29
30

- - - - -





1 ---Upon Commencing at 9:30 A.M.

2 THE CHAIRMAN: Mr. Secretary, it is now
3 9:30. If you are ready, we will commence.

4 THE SECRETARY: Good morning, Mr. Chairman
5 and Commissioners.

6 The first brief this morning is being
7 presented by the Canadian Rehabilitation Council for
8 the Disabled. This brief is being presented in co-opera-
9 tion with the following organizations --

10 The Canadian Association for Retarded Children

11 The Canadian Cystic Fibrosis Foundation

12 The Canadian Heart Foundation

13 The Canadian Mental Health Association

14 The Canadian National Institute for the Blind

15 The Canadian Paraplegic Association

16 The Canadian Tuberculosis Association.

17 We have here this morning, Commissioners,
18 three gentlemen representing the Council to speak to
19 the brief. There is Professor A. M. Linden, Advisor, and
20 associated with him are Dr. K. Armstrong, National
21 Director of the Council and Dr. Roeher, who is Executive-
22 Director of the Canadian Association for Retarded Child-
23 ren.

24 Mr. Chairman, I would like to enter this
25 brief into the record as Exhibit 264.

26
27 ---EXHIBIT NO. 264: Brief of the Canadian Re-
28 habilitation Council for the
29 Disabled.

30 SUBMISSION OF

CANADIAN REHABILITATION COUNCIL FOR THE DISABLED



1 Appearances: Professor A. M. Linden

2 Dr. K. Armstrong

3 Dr. G. A. Roeher.

4 THE CHAIRMAN: Thank you, Mr. Sec-
5 retary. Good morning Professor Linden, Gentlemen.

6 Before getting to your submission - which
7 we read with interest, I might say, Professor Linden --
8 I for one would like to know a little bit more about the
9 Canadian Rehabilitation Council. I am reasonably familiar
10 with the Associations which are joined in this submission,
11 but I am not that familiar with your own.

12 By its name I can understand it is dir-
13 ected towards the end of rehabilitation. Would you care
14 to speak to that?

15 PROFESSOR LINDEN: I wonder if I might call on
16 Dr. Armstrong to assist me on this. It is a rather
17 new organization and Dr. Armstrong was instrumental in
18 its creation. I think he might be able to assist.

19 THE CHAIRMAN: Thank you very much. Dr.
20 Armstrong?

21 DR. ARMSTRONG: Mr. Chairman, the Canadian
22 Rehabilitation Council is a merger of two former organ-
23 izations, the Canadian Association for Crippled Children
24 and adults, which is the organization that sponsored
25 the sale of Easter Seals across Canada and the Canadian
26 Foundation for poliomyelitis, which sponsored the annual
27 March of Dimes Campaign.

28 The purpose of the merger is that they found
29 that both organizations had the same basic purposes
30 and objectives, the one in the area of children, the



1 Easter Seals, and the other in the area of adult dis-
2 ability. The two Boards of Directors after a consider-
3 able number of years of negotiating, felt that the
4 administrative costs of national leadership, the unity
5 of purpose and so forth and so on could best be served
6 if the two organizations were merged.

7 One of the objectives of the Canadian Re-
8 habilitation Council for the Disabled is an attempt
9 to work closely with the other major national health
10 organizations in Canada to bring some unity of viewpoint
11 among voluntary agencies interested in diseased and
12 disabled groups.

13 Of the organizations that are represented
14 in the brief the Executive Directors form an informal
15 committee which meets with us periodically and in which
16 we discuss the common areas of concern which mainly
17 are related to the re-establishment of disabled persons in
18 whom they are interested in back into the community.

19 The merger took place in June of -- really
20 it became effective in January of this year. So the
21 organization is comparatively new and its name is not
22 too well known yet across Canada.

23 THE CHAIRMAN: Thank you, Dr. Armstrong.
24 Do these agencies represent these major agencies in
25 the area of health, or are there others? Its course
26 is directed to rehabilitation, but I think most health
27 agencies are also directed towards rehabilitation.

28 DR. ARMSTRONG: Yes. There are two other
29 agencies that helped in the preparations of this brief,
30 but because of the time at their disposal they were not



1 able to clear the final document with their Boards of
2 Directors, so they withdrew from the list that appears
3 on the cover of this brief. So there are really ten
4 working together.

5 As far as I know this is about the first
6 time that the major voluntary health agencies have come
7 before a body such as this with one point of view.

8 THE CHAIRMAN: Do not bother standing up,
9 Dr. Armstrong.

10 A few years ago there was an organization
11 which brought together all the health agencies. I have
12 forgotten the name of it, but it had a great number
13 of agencies.

14 DR. ARMSTRONG: C.C.N.V.H.W.O. That organ-
15 ization broke down because there is no one person who
16 took continuing responsibility for follow-up or for
17 decisions. The Board of my own organization in the
18 Canadian Rehabilitation Council have offered to provide
19 this service.

20 THE CHAIRMAN: Very good.

21 DR. ARMSTRONG: So that when the agencies
22 get together there is implementation. We take the
23 responsibility for implementing decisions.

24 THE CHAIRMAN: At one time Colonel Baker
25 was responsible for this organization.

26 DR. ARMSTRONG: That is right.

27 COMMISSIONER PERRY: Do I understand these
28 organizations listed here are the members of the
29 Council? The statement is that it is presented in co-
30 operation.



1 DR. ARMSTRONG: No, they are not members of
2 the Council, Mr. Commissioner. The organization struct-
3 ure is a bit complicated. The national membership of
4 the Canadian Rehabilitation Council is made up of the
5 Provincial Easter Seal Organization and the Provincial
6 March of Dimes Organization across Canada. We are hop-
7 ing that eventually these organizations will become
8 associated members, but they are not full members.

9 COMMISSIONER PERRY: I notice you also men-
10 tion that the Canadian Cystic Fibrosis Association and the
11 Cerebral Palsy Associations are affiliated with you
12 for administrative purposes.

13 DR. ARMSTRONG: Yes. One of the services
14 that we are attempting together, and this is very ex-
15 perimental at the moment, is to try and meet the needs
16 of the smaller special interest groups which are main-
17 ly preparatory and probationary by providing them with
18 an administrating service so that the necessity of
19 their going to the public for funds does not arise.

20 We are serving the Cystic Fibrosis, Haemophilia, Cere-
21 bral Palsy and Parkinson's. Those groups are served
22 under our organization but they have a different re-
23 lationship from these major national agencies.

24 THE CHAIRMAN: I am rather surprised not to
25 find Arthritis associated with you.

26 DR. ARMSTRONG: Mr. Dunlop was very helpful
27 as a matter of fact in preparing the brief and has
28 worked with us right through. As a matter of fact
29 he was at our last meeting this week. He represents
30 one of the agencies that did not get it to his Board



1 in time.

2 THE CHAIRMAN: I see.

3 COMMISSIONER GRANT: On page 54 you have
4 there a list of affiliated organizations. Do I see
5 there the Canadian Heart Foundation? It is on the cover,
6 but is it on page 54?

7 PROFESSOR LINDEN: No, sir; it is not on
8 page 54. Appendix No. 1 starting at page 53 outlines
9 the different organizations that are co-operating in
10 the brief. The Canadian Rehabilitation Council is the
11 major sponsoring group. The other groups co-operated
12 in the formulation of policy, but it was the Canadian
13 Rehabilitation Council that authorized the production
14 of the brief. The other groups are helping in its
15 formulation and agreeing with its proposals. It is
16 not really a joint brief in that the Canadian Rehabil-
17 itation Council is more or less the major sponsoring
18 group.

19 But then there are all the other groups that
20 are associated in it and which are listed, as you see,
21 on page 54. The Canadian Association for Retarded
22 Children is listed about the middle of the page with
23 their objects and their structure. They have helped in
24 the instructions for the preparation of the brief.
25 The Canadian Mental Health Association is on page
26 55 about the middle of the page. Its objects and
27 structure are listed. The Canadian National Institute
28 for the Blind is on page 56, item (f) towards the top
29 of the page. It is listed there with its structure
30 and objects.



1 On Page 57 the Canadian Tuberculosis
2 Association is listed.

3 Is the Canadian Heart Foundation not in here?

4 Oh, yes, the Canadian Heart Foundation
5 appears on Page 55, item (b), about one-third of the
6 way down the page there, with objects and structure.

7 Again we have tried to be very brief in
8 the objects and structure of these organizations. Most
9 of them have little booklets describing their work
10 and their structure, but we felt for the purpose of
11 this Commission it would be sufficient to just summarize
12 what they do in their structure. I assume that is
13 what you wish to have.

14 COMMISSIONER GRANT: While you are the official
15 spokesman for the Crippled Children's Organization and
16 also for the adult, the other organization ---

17 THE CHAIRMAN: For the Canadian Rehabilitat-
18 ion Council for the Disabled?

19 COMMISSIONER GRANT: No. What I am trying
20 to get at is that the Canadian Rehabilitation Council
21 for the Disabled is the acknowledged spokesman for two
22 organizations, one the Crippled Children -- what we
23 used to know as the Crippled Children's Organization --

24 PROFESSOR LINDEN: Yes.

25 COMMISSIONER GRANT: And the other is the
26 adult.... You give me the name.

27 THE CHAIRMAN: Poliomyelitis.

28 COMMISSIONER GRANT: Yes.

29 THE CHAIRMAN: They have both been merged
30 into the succeeding organization, as I understand it.



1 COMMISSIONER GRANT: That is what I want to
2 have. I understand that to be so. It is, I believe,
3 hoped that these other organizations will enter into
4 the Canadian Rehabilitation Council on the same basis
5 as the original two have entered it; is that right?

6 DR. ARMSTRONG: Not on the same basis.
7 I think it is recognized that the organizations listed
8 on the brief are concerned with major health problems
9 in Canada. We think they will become associated members,
10 rather than simply lose their identity and enter the
11 new organization.

12 COMMISSIONER GRANT: Full membership is not
13 open to them?

14 DR. ARMSTRONG: No. I do not believe they
15 would desire it and I do not think it would be in the
16 best interests of our organization if this took place.

17 COMMISSIONER GRANT: So when you appeal for
18 funds to the public the organizations which are listed
19 on the front cover as co-operating in this brief
20 will continue to make their separate appeals?

21 DR. ARMSTRONG: Yes.

22 COMMISSIONER GRANT: Whereas the appeals
23 which have been carried on in the past by the March of
24 Dimes on behalf of Crippled Children and the adult
25 Poliomyelitis Organization will be merged in the Canadian
26 Rehabilitation Council?

27 DR. ARMSTRONG: Yes.

28 COMMISSIONER GRANT: Thank you.

29 DR. ARMSTRONG: Our concern is not to follow
30 the United Appeal pattern. Our concern is to try and



1 promote coordination in thinking and conservation of
2 services and resources, so that there is no overlapping
3 of services and no obvious gaps in services.

4 THE CHAIRMAN: I have been the President
5 of the Canadian Welfare Council. You are trying to pro-
6 vide the same services in the health field as the
7 Council provides in the welfare field, I think.

8 DR. ARMSTRONG: That, I think, would be
9 the closest pattern. I think we are dealing with per-
10 haps a more independent group than the Welfare Council
11 groups.

12 THE CHAIRMAN: I do not think you know.

13 I must say my reading of this I think led
14 me to understand perfectly clearly the philosophy behind
15 your requests in here and in the main what your requests
16 are. My major difficulty -- and I have not discussed
17 this with the other Commissioners; but I suppose they
18 found the same -- is to be precise and to lay down
19 rules which would be useful and workable.

20 It seemed to me the right place to start
21 looking for rules was with regard to what is disabled,
22 because this is all directed at disabled persons.

23 I thought perhaps a general plan and approach
24 to this submission might be considered after discussing what
25 disabled, so that we understand that clearly. Then
26 we could go through your specific recommendations,
27 which only start on page 16. Everything up to Page 16
28 is introduction and general statement. I think that is
29 the way we should proceed.

30 PROFESSOR LINDEN: I have to admit, Mr.



1 Chairman, that this question of what is a disabled per-
2 son has caused us more difficulty. We have met on four
3 or five occasions, the three of us and the seven, eight,
4 nine or ten of the executive directors of these various
5 groups, and what we were seeking was a definition that
6 would encompass all of the people represented by these
7 groups -- in fact even people that are not represented
8 by this group but have disability, in order to get
9 a common policy towards disability.

10 As we saw the legislation heretofore there
11 are certain groups of disabled people that seem to
12 have been isolated for special treatment, mainly perhaps
13 because they were easily definable. This is the example
14 with the Association for the Blind. It is not too
15 difficult to define a blind person. Also they can
16 determine the number of feet they can see, just as
17 there is a certain method of determining who is blind
18 and who is not blind. So it is rather easy to define
19 a blind person and to define who is blind and who is
20 not blind.

21 Similarly with people with paraplegia
22 and people who are, in normal terms or past terms,
23 the word "crippled", it is easier to find that kind of
24 person than it is to include people like the mentally
25 retarded people with mental deficiencies and people
26 with heart problems.

27 Yet the common bond that runs through
28 all of us is that we should be able to find some def-
29 inition which would encompass all of these groups on
30 an equal basis, and again we have had difficulty.



1 It is difficult to be precise when you are
2 trying to incorporate all of these groups, and yet you
3 have to be as precise as you can. But if you are too
4 precise you leave people out. So the definition that
5 we came up with, and again the reason we prefer it
6 over the present one which is in fact rather big too --

7 THE CHAIRMAN: It is on page 50.

8 PROFESSOR LINDEN: Yes, but the present
9 definitions that appear in the various taxation studies,
10 and there are other studies too on which they appear,
11 they normally link the definition of disability with
12 the ability to perform a gainful employment, the ability
13 to engage in substantially gainful employment.

14 We rather objected to this thing because
15 again it was sort of like a means test definition, which
16 is something that voluntary organizations would like
17 to get away from.

18 In future briefs to the National Health
19 and Welfare Department we propose to deal with the
20 problem of the disability allowance and problems like
21 that which now are gauged to the ability to earn.

22 It is our submission that there are people
23 who suffer from disabilities and yet they are able
24 to earn a moderate living or a reasonably substantial
25 living. This in fact is a goal of these organizations. --
26 to try to assist people who are disabled to engage
27 in meaningful employment and, hopefully, gainful employ-
28 ment. But again the problem is that these people have
29 extra costs because of their disabilities. They have
30 to use taxi cabs; they have to use certain chemicals.



1 They have to consult certain medical experts more often
2 than others. They have difficulty getting around.
3 They have special emotional problems, special social
4 problems.

5 It is because of this that we suggest dis-
6 abled people, if we can define them, deserve some special
7 kind of treatment.

8 The definition that we will come up with
9 is big but again many definitions are big. But it rep-
10 resents what we are trying to get at. We are trying
11 to treat all of these people equally and we are trying
12 to remove it from the ability to earn employment. There
13 may be a man who is a lawyer who makes a decent living
14 and who is blind. In fact I know two or three of them.
15 But they are still disabled people in our view and
16 they still deserve special treatment in taxation leg-
17 islation. It may be that they should not be allowed
18 certain donations, but that is a different matter.

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1 It may be that they should not be allowed
2 certain donations but that is a different matter. The
3 one we have come up with is this one, again, through
4 a great deal of consultation and argument, the one
5 formulated by Dr. Rusk is one whose mental and
6 physical handicap is substantially and permanently lim-
7 ited in the performance of the activities of daily
8 living. Mental and physical handicap, we want to equate
9 both mental and physical defects.

10 One of the present problems with almost
11 all legislation is that it does not take into account
12 people with mental deficiencies. These are 25 per
13 cent of all disabled people in Canada either mentally
14 retarded or with some mental disease. It is our sub-
15 mission they deserve treatment similar to what the
16 blind people receive, similar to what the people in
17 wheelchairs receive.

18 The words "substantially and permanently
19 limited", we do not want to include in our definition
20 of people who are just injured in an accident and
21 people who are sick for a short period of time because
22 we think there is a difference between those people.
23 Everyone, through their life, goes through some period
24 of sickness or disability. Our groups are aimed at
25 people with prolonged difficulty so we talk about per-
26 manently but again not totally and permanently as
27 exists in some of the present statutes, because if some-
28 body is totally and permanently disabled they cannot
29 do anything. These people are many and beyond the
30 help we can give them other than provide care.



1 So far as rehabilitation is concerned, if
2 totally and permanently limited, it is a contradiction
3 of terms to say they may be treated to do work. The
4 word "permanently" gets over the word temporary. We
5 are not too happy with "permanently". The idea is con-
6 tinuing. The present statutes interpret "permanently"
7 in this way, permanently for the time being.

8 And again "substantially" is a word that has
9 of course been given a variety of meanings. It is
10 a common word used in the statutes, and again we have
11 to trust the group who is deciding this. It would be
12 an administrative agency or a Court to make the judg-
13 ment. It is an idea that is something more than just
14 a slight limp or slight defect or slow learning or
15 things like that. We want to get something that is
16 major in proportion.

17 The performance of daily living, the act-
18 ivities of the performance of daily living is really
19 the best test we could come up with. This is the
20 heart of this definition of why it differs from the
21 present ones. We take it away from employment and we
22 say, how does this person go about dressing himself,
23 feeding himself, clothing himself, how does he get
24 around town, and it is this test that we would prefer
25 to be used in determining whether a person is disabled
26 or not rather than the work test, because again we
27 all agree that some people who are disabled cannot
28 earn a decent living and this is the kind of thing
29 we wish to promote. We will want to give these people
30 similar taxation advantages to get to the point where



1 they are able to work gainfully and give them some
2 little bit of taxation benefits to compensate for ex-
3 tra expenses they have over and above all other
4 people.

5 THE CHAIRMAN: We are dealing with half a
6 million people where one-fifth of the people in the
7 class are and had to be looked at. It should be a
8 definition which will either include or exclude most
9 people.

10 PROFESSOR LINDEN: This is the sections,
11 sir.

12 THE CHAIRMAN: Of course, I wonder where
13 inconvenience of a bad leg ~~becomes~~ substantial. In the
14 performance of the activities of daily living, I
15 think a wooden leg probably would. A stiff leg, knee
16 joint that does not bend, where does that come in?

17 DR. ARMSTRONG: It would have to be related
18 to all the other facets in the makeup of the person.
19 A stiff knee might be quite an inconvenience because
20 of having a sedentary job but a stiff leg to a labourer
21 would definitely be an interference to his performance
22 of the activities of daily living.

23 He would have to be retrained into a
24 clerical job which would continue to be a limitation.
25 Or an index finger to a policeman is an important part
26 of his job.

27 THE CHAIRMAN: His earning is limited
28 which is only part of the activities of living -- the
29 earning of income.

30 If I had a stiff leg I could not play a game.



1 Would that come within your definition, the activities
2 of daily living? I think it would perhaps.

3 PROFESSOR LINDEN: Probably not, I wouldn't
4 think. It has to be taken in the context of what is
5 to be done. It may be that one or two of your activit-
6 ies of daily living would be affected. In fact, many
7 of us have some things which we are not allowed to
8 do. People who have had heart attacks are told not
9 to exercise strenuously. It is not that kind of thing.
10 It is the ordinary every-day thing. The job is part
11 of it. But, it is getting around, getting dressed,
12 eating, do you need almost constant supervision in
13 the things that you do.

14 THE CHAIRMAN: Do not forget that whatever
15 is laid down would be subject to test every day.

16 PROFESSOR LINDEN: These things have to
17 be hammered out on a case-by-case basis. We would
18 have thought this definition would include most of
19 the people represented by these organizations, but
20 again there may be certain of the people who provide
21 services by these organizations which would not fall
22 within this definition.

23 I was talking to Dr. Roher this morning
24 on the train. We were worried about the children men-
25 tally retarded just to a slight degree. We had a
26 discussion about that, and would they come within
27 this definition, are they able to look after themselves.
28 And we decided that maybe some of these people, that
29 would become subject to your care, might not come
30 within this definition. Again, certainly the heart



1 people who are not kept from doing their activities
2 of daily living. But, we want to get beyond just the
3 job and yet we do not want to get into the area that
4 if somebody cannot play tennis or somebody has a slight
5 injury or limp, somebody wears glasses, he would not
6 come forward for this assistance because there you
7 would run into some 20 per cent of the nation that has
8 some kind of disability.

9 The other parts of the definition "sub-
10 stantially and permanently limited in the performance
11 of the activities of daily living -- this word "substan-
12 tially" gives you your guide. Just because it is
13 hard for you, if you are a policeman, to point your
14 finger to go if your finger is missing, is that sub-
15 stantially interfering with eating and drinking and
16 getting around. Just because you have a stiff leg
17 and cannot bowl, does that substantially interfere
18 with eating, drinking and getting around?

19 THE CHAIRMAN: Activities of daily living.

20 PROFESSOR LINDEN: Yes.

21 COMMISSIONER WALLS: I want to deal with
22 the same subject in workshops.

23 On Page 19, you ask for exemption of
24 sales tax on workshops that employ these people that
25 are physically disabled. I would presume that, quite
26 justifiably, independent industries that employ them
27 would have equal right to ask for the same exemptions.
28 Do you agree with that if they were employed?

29 DR. ROEHER: The workshops, with the
30 exception of maybe two or three which are classed as



1 industries, are generally not industrial structures
2 in the sense they employ people for the sake of providing
3 permanent employment.

4 Generally the workshops are training
5 centres which have industrial settings. As the people
6 work to a point of approximate work performance where
7 they can move out, they should be placed in industry
8 even within a sheltered condition and subject to
9 work conditions and standards like anybody else.

10 The typical workshop will cater to a person who uses
11 that as the stepping stone or can seriously earn ten
12 to fifteen, twenty per cent capacity. The difficulty
13 is, although we call them workshops they are not that
14 because you are working for a sub-marginal group, un-
15 trained, that does not have the capacity and might
16 better call them training centres, or treatment centres
17 or something like this.

18 One problem is to create some kind of
19 industrial or working atmosphere. The second problem
20 is to sponsor the voluntary help and to give them enough
21 of a break to get going. When there is heavy taxes
22 on everything that is bought, every cent made, it be-
23 comes backbreaking. You don't get on your feet. In
24 many of the operations it is too impeding to even
25 afford proper training staff to deal with the job.

26 COMMISSIONER WALLS: The point I am trying to
27 get at -- an independent industry that is willing to
28 encourage these people, who have not got the capacity
29 to do such work to produce on an equal basis, to some-
30 body who has all their abilities, are they not equally



1 entitled to deduction?

2 PROFESSOR LINDEN: Yes.

3 COMMISSIONER WALLS: Do you not run into a prob-
4 lem -- what I am getting at is; I can see where somebody
5 would start employing a lot of people who were crippled
6 in the legs, and use them primarily in hand-operations
7 and take advantage of the tax you are asking for your
8 workshops. As soon as it is granted to your people,
9 other employers might believe they would have equal
10 right to ask for it. I also believe there was a recent
11 case in Canada where ~~disabled~~ Christmas cards, which are painted
12 by artists with their toes, have been solicited by mail
13 for sale. The Better Business Bureau have now looked
14 into it and found it to be a foreign company which is
15 using this means of exploiting the selling of Christmas
16 cards. That would seem to me the danger of defining
17 disability from disabled even within your own workshops.

18 PROFESSOR LINDEN: Mr. Commissioner, I
19 think that one of the answers and this is something we
20 have considered in preparation of this brief, was to
21 provide this exemption merely for non-profit workshops.
22 This would get away from the business man who hires
23 disabled people in order to take advantage of Government
24 subsidies and take advantage of their ability to produce
25 relatively well.

26 The reason we ask for this limited ex-
27 emption is because of that problem, as you may know,
28 in other nations I think in Britain, for example, there
29 is a requirement that every industry hires three per
30 cent of their staff from among the disabled people of



1 that country. This is one way of the Government assuring
2 that disabled people have some work. We did not feel
3 we could ask for that kind of thing. We thought our
4 Government is not prepared to demand of industry to
5 undertake this burden. We would have liked to ask for
6 tax incentives to hire people who are disabled. That
7 would help disabled people. We get into the area of
8 abuse and the cost factor.

9 A recent proposal that this Government
10 was given was a little incentive to hire workers over
11 45 who have been unemployed for a certain period of
12 time. This may very well open the employment for people
13 over 45. That kind of thing costs money. We have asked
14 for a limited thing because of workshops being relatively
15 small in number and relatively small number of people.
16 This kind of thing. People who cannot compete in ordinary
17 industry. You do not like to say this but they are
18 passing the time of day, very often they are producing
19 very very little of value. But, to give them the feeling
20 they are doing something worthwhile. This is why we
21 call them workshops rather than treatment centres.

22 We do not want to make it obvious to
23 these people that they are being treated or helped along,
24 but they are doing something useful. It takes them a
25 long time to do it. The thing is not profitable but it
26 is this kind of organization which has recently grown
27 up and it is growing very quickly. We ask to be helped
28 only with the Government. One of the most important
29 things that taxation legislation can do -- if all products
30 bought by these non-profit organizations were free of



1 the 11 per cent sales tax and everything they sold would
2 be free of the 11 per cent sales tax, this would in effect
3 give them 22 per cent subsidy. It would cost the
4 Government a few dollars. That would make their operation
5 that much closer to keeping their head above water and
6 we suggest this is an important kind of thing to promote,
7 that if anything is promoted by tax incentives it should
8 be this kind of thing and should be on the basis of
9 a non-profit organization that provide this service for
10 all kinds of disabled people, the disabled person who
11 can go there for a short period in order to get train-
12 ing to acquire some skill and go back to industry as
13 quickly as possible.

14 People do not desire to stay in shelter-
15 ed workshops. The objective of the sheltered workshop
16 is to assist in training people that industry cannot
17 afford to train.

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1 COMMISSIONER WALLS: How can you define
2 it being a non-profit workshop when in fact they sell
3 on the open market the products they produce? True,
4 they may sell at a loss, but they are still competing
5 on the open market, are they not?

6 THE CHAIRMAN: I think they are all supp-
7 orted by donations, are they not, Doctor?

8 DR. ARMSTRONG: Most of them are sub-
9 sidized by donations.

10 THE CHAIRMAN: The Crippled Civilians
11 are, of course, and the Blind is.

12 DR. ARMSTRONG: Industrial Workshop.

13 THE CHAIRMAN: And Recreations is subsid-
14 ized, I remember.

15 COMMISSIONER WALLS: You would interpret
16 that as being non-profit, because they get a donation?

17 THE CHAIRMAN: No, that is not the test.
18 It has to be proved by the Department as a charitable
19 organization.

20 COMMISSIONER MILNE: I think you men-
21 tioned the Industrial Workshop in Winnipeg. I would
22 think that certainly in some areas, particularly in
23 the duplicating process, where they supply many firms
24 with work people, this would be a competitive area.

25 I do not really know what happens to
26 the persons who are employed in the workshop. Do they
27 go into industry or is this something that is maintained
28 there?

29 DR. ARMSTRONG: It is always the hope that
30 eventually they will be. We try not to encourage dis-



1 abled people entering the really competitive open labour
2 market unless they are able to satisfy the employer.

3 Under the Federal Coordinators Programme
4 there is a subsidy on all training on the job programmes
5 for a limited period of time. When the disabled per-
6 son has completed that he is supposed to be able to
7 compete with his fellow employees. This is what we
8 hope happens to people who go through the Industrial
9 Workshop in Winnipeg. Sometimes it does not happen.

10 Where the person is in training, usually
11 because of his disability it takes him one-third as
12 long again or twice as long to produce the mimeograph
13 work. But the Industrial Workshop still tries to main-
14 tain a standard that is acceptable to the customer.
15 But it takes two or three times as long to get it through
16 the Workshop because of the disabilities involved.

17 COMMISSIONER MILNE: But are many of
18 these people absorbed into industry following the train-
19 ing programme?

20 DR. ARMSTRONG: In the particular shop
21 you refer to they have been very successful in their
22 placement programme.

23 THE CHAIRMAN: The Toronto Civilians
24 told me how many they had placed with industry. I
25 cannot remember now, but it was a very substantial
26 number and very successful. There would be no returns
27 out of that at all.

28 DR. ROEHER: Actually one of the reasons
29 for arguing tax concessions is for lack of an alternate
30 plan. In the instance of Workmen's Compensation their



3
1 rehabilitation plan, their compensation plan and so
2 on, they have looked at this problem as a total problem.
3 When you are hurt you are provided with the things
4 you need to get back on your feet and if you cannot
5 there is a permanent pension of some kind or allowance
6 made. We do not have this with all our disabled people
7 in Canada.

8 Or I suppose you could argue the other
9 way whereby you subsidize everything, but in the absence
10 of this you need some type of practical....

11 I have been to shelter workshops. England
12 is an interesting example, where the Government does
13 operate or employ industries which employ some 90,000
14 disabled people. Then a smaller number of workshops
15 exist in the voluntary structure.

16 Business men who have studied both highly
17 favour the non-Government subsidized projects because
18 this is closer to the kind of atmosphere in which you
19 develop a work capacity for these people. There is a
20 group sense of effort and need to run it in a business-
21 like manner.

22 This is one of the arguments in favour
23 of certain tax concessions, to create this kind of
24 atmosphere as against the wholly subsidized thing in
25 which there is really no motive or objective ultimately
26 and which tends to bog down your operation. If it is
27 to meet competition in industry you must develop an
28 atmosphere that is positive.

29 PROFESSOR LINDEN: In answer to Commissioner
30 Walls' question, I would like to add another point on



1 this profit-motive aspect. It is the purpose of the
2 workshop that we have to look at. It is the purpose
3 really to provide service and just as an incident of
4 the provision of service they sell some production
5 the market. Part of the therapy is to produce something
6 that is saleable and usable on the market. But the
7 purpose behind the workshop is not to make money for
8 those people who are operating it. It is to provide work
9 for the people in there and to try and minimize losses,
10 and if perhaps one or two of these organizations ...
11 I think I have given you the figures here.

12 THE CHAIRMAN: You have. It is on your
13 Appendix 2.

14 PROFESSOR LINDEN: If they have, I do not
15 think the figures as far as the money that they have
16 earned.... Appendix 2 on page 58 is the list of those
17 organizations for which we had figures as to the number
18 of people employed, the wages paid to them and the value
19 of the goods produced.

20 It is from there we have abstracted and
21 estimated the balance and we have come out with the
22 figure of some \$1 million, 300 thousand worth of goods
23 which are produced in Canada by this kind of organiz-
24 ation. The highest one is the Canadian National In-
25 stitute for the Blind -- which again is co-operating
26 in this brief. They have produced \$845 thousand worth
27 of materials last year, and that is a large operation.
28 But again this is produced in order to give blind people
29 a sense of doing something useful. It may be that their
30 costs were not as large as their income. But whatever



5
1 income they made would again be placed into the workshop
2 or into the other work the institution is doing for the
3 assistance of blind people. This is the important
4 thing.

5 And again the blind people are those who
6 have enjoyed a special tax exemption in the past. Half
7 of the sales tax which they are to collect on goods
8 that they have produced alone is required to be accepted.

2 9 No one can measure the effect of that,
10 but simple economics says that if you do not have to
11 collect $5\frac{1}{2}$ per cent of the taxes your product will be
12 $5\frac{1}{2}$ per cent cheaper, or you will be $5\frac{1}{2}$ per cent closer to
13 making ends meet. It may be that this is one of the
14 things that has assisted the blind people to get to where
15 they are.

16 Again the cost of this thing we can es-
17 timate in taxation; it would be about 11 per cent of
18 \$1 million 300 thousand per year. I think on page 21
19 we arrive at a figure of about \$98 thousand, but again
20 part of this already is being given to the blind people.
21 On the \$845 thousand worth of goods they produced there
22 is not 11 per cent of that collected, it is only $5\frac{1}{2}$
23 per cent of that.

24 Deaf mutes are given the same advantage,
25 and yet all other groups of disabled people have no
26 such advantage.

27 It is this inequity as we see it that
28 we ask to be cured. The inequity can be cured by re-
29 moving all of the tax exemption and have a consistent
30 policy across the line by removing everything rather



6

1 than giving us everything for which we ask.

2 But we suggest this \$100 thousand a
3 year would be very well spent and we suggest this kind
4 of thing should be given. Remember that these people
5 are earning something in the workshop. Hopefully they
6 will earn enough that they will eventually be paying
7 income tax on what they earn. Again they will be earn-
8 ing enough so that perhaps they will be beyond the
9 position where the Government will have to give them
10 a disability allowance, will have to educate them, be-
11 cause they are in fact being educated here.

12 Even though it looks like there is a
13 \$98 thousand cost each year, a substantial part of that
14 should be recovered by reducing expenditures in other
15 areas and by increasing the income taxation.

16 THE CHAIRMAN: Do not stand unless you
17 wish to do so.

18 PROFESSOR LINDEN: I feel more comfortable
19 standing.

20 THE CHAIRMAN: By all means stand, yes.

21 PROFESSOR LINDEN: I am used to standing
22 when I speak.

23 COMMISSIONER WALLS: One thing rather
24 disturbs me about this whole issue. That is, when when
25 people buy a product that is verified as being made
26 by the blind -- and of course those made by the blind
27 are generally sold in special stores operated by the
28 blind organization -- or if they are verified as being
29 made by disabled people, do you really think the con-
30 sumer assures himself that it does not cost a penny more



1 than the like factory-produced product, and therefore
2 does it really make much difference whether there is
3 11 per cent tax added to it or not?

4 PROFESSOR LINDEN: Again a great many
5 people will purchase goods that are produced by dis-
6 abled people and pay any cost.

7 As we consider this on the basis of
8 economics one would have thought most people when they
9 buy something look at the price of it and they would
10 buy something which is cheaper, again if it is just
11 as good. This is the whole theory of our economy, that
12 people try to get something as good for as cheap as
13 possible and those who sell try to get as much as
14 possible for it in view of the competition.

15 A certain number of people will buy no
16 matter what the cost because they wish to help blind
17 people and this is a way of giving to charity. But
18 there must be many others who do not even investigate.
19 But again even if the price were equal, the point is
20 that it is the wholesale price which has to be consid-
21 ered. It is to encourage different retail outlets
22 to stock material or goods produced by the disabled
23 people, and it may be that at that level they are
24 able to sell it at a slightly cheaper price or even to
25 sell it at the same price at which their competitors
26 sell it. Because they do not have to collect a tax
27 they have that little bit of extra play there and their
28 operation is that much closer to breaking even.

29 THE CHAIRMAN: May I interrupt? If
30 we were to accept your suggestion that really the tax



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1 descends on the organization and thus on the donors
2 to the organization who are maintaining the balance,
3 the correct approach to this, I suppose, would be to make
4 exempt from sales tax those organizations only which
5 are certified by the Department of National Revenue as
6 being charitable.

7 DR. ARMSTRONG: Yes.

8 THE CHAIRMAN: Would that cover all those
9 set out on Appendix 2 and all those which are not set
10 out on Appendix 2? Are those all charitable organiz-
11 ations? I assume they are.

12 DR. ARMSTRONG: Yes; I think this would
13 be the safeguard. They would have to be. Commissioner
14 Walls made the point that you want to avoid any danger
15 of exploitation or of any individual being able to
16 set up any kind of work in which he is going to take
17 advantage of disabled people. This certification
18 would be important.

19 THE CHAIRMAN: And we must protect
20 industry against unfair competition.

21 DR. ARMSTRONG: That is right.

22 THE CHAIRMAN: It would only be where
23 they are subsidized by the nation that such a measure
24 would be taken.

25 DR. ARMSTRONG: I have investigated the
26 workshops in Poland, which has an entirely different
27 philosophy, of course. But there the workshop is
28 out and out competitive. There is no concession given
29 at all. They compete with the industry. They even
30 export. Some of our brooms are made by the Polish



1 9 disabled.

2 This is a little different from our
3 philosophy in which we have charitable workshop program-
4 es and we consider the competitive relationship to
5 industry but we do not try to compete with industry.

6 COMMISSIONER WALLS: I have great
7 sympathy with your people here, but the danger as I
8 see it is this. First of all you are heavily subsidized.
9 True your workers may not be able to turn out the same/
10 as healthy workers would in a factory, but you have
11 other costs that make it practical for you to be
12 able to compete at a very reasonable price with private
13 industry producing the same article.

14 It seems to me that perhaps there
15 should be some other means found of subsidizing than
16 a reduction of sales tax because of the difficulties
17 that might be entailed in separating the sheep from
18 the goats as it were.

19 PROFESSOR LINDEN: Again, sir, the
20 point is that there is now already being given a sub-
21 sidy to two favourite groups.

22 COMMISSIONER WALLS: Yes.

23 PROFESSOR LINDEN: The major philosophy
24 of this whole presentation is that all disabled groups
25 should be treated equally. Again we do not ask that
26 you take away the subsidy that the blind people
27 have. It may be that you will decide the Government
28 cannot afford to waive \$98 thousand worth of tax,
29 but it may be able to waive \$25 thousand worth of sales tax
30 each year. Then, if you would give equal treatment to



10

1 other disabled people as the blind people receive, that
2 again would be something for your consideration.

3 But the other point that has not come
4 up is the cost to the organization of collecting these
5 taxes and sending them on and keeping the books and
6 this kind of thing.

7 I point out one instance here where some
8 group in Alberta was producing some little article and
9 selling them and not collecting the tax, not realizing
10 they were "manufacturing" and required to pay tax.
11 After a few years the Revenue Department learned of
12 their operations and sent them a bill for tax of
13 some \$500.00 or so. They have to pay this now merely
14 because they were not aware they had to collect this
15 tax. This is the kind of thing that happens.

16 On the other hand there may be areas
17 where people are consciously evading this kind of thing,
18 which are not to be promoted, I would suggest.

19 The best resolution is to remove it all
20 again to escape the cost of collecting it. This is
21 really one of the most important things that we are
22 recommending to-day, because this is a way of indirect-
23 ly assisting these groups, which we say are vitally
24 important to the benefit of the disabled people of
25 Canada.

26 THE CHAIRMAN: We seem to have moved
27 away from definitions.

28 COMMISSIONER PERRY: I would like to get
29 back to definitions, because there is a lot more in-
30 volved than sales tax.



1 THE CHAIRMAN: Yes.

2 COMMISSIONER PERRY: Can you suggest
3 any feasible way of policing a definition of this
4 kind? Putting it in one way, would your organizations
5 be capable of giving a certificate of endorsement
6 to a claim by an individual tax claimant?

7 DR. ARMSTRONG: I do not know how
8 acceptable this would be, but in the old administration
9 which I used to be responsible for in Saskatchewan
10 all that was required was a doctor's certificate. A
11 husband was certified as being completely disabled,
12 or a mother got mother's allowance, and this led to
13 a good deal of abuse. As one doctor said to me, he
14 was not going to jeopardize his relationship with the
15 family by refusing to sign the certificate if there
16 was any justification for it at all.

17 So a certificate by one person alone
18 certainly would not give any protection at all.

19 But in the last ten years there has
20 developed in other provinces in Canada at least one
21 competent rehabilitation centre which is operated by
22 a director of physical medicine or a competent physician,
23 a psychologist, a physio-therapist and a social worker.
24 If the certificate came out of the findings of the
25 rehabilitation centre in its evaluation process, this
26 would definitely be a protection because the rehabil-
27 itation centre as a matter of pride would not want to
28 certify a person as being disabled if there is any
29 opportunity of his being completely independent.

30 COMMISSIONER PERRY: Would such a centre



12
1 in its normal operation embrace a large part of the
2 half a million people that you suggest are disabled
3 in this country?

4 DR. ARMSTRONG: They could be. They are
5 equipped to evaluate disability of any kind -- the
6 Toronto Rehabilitation Centre, the Rehabilitation De-
7 partment of the Western Hospital.

8 COMMISSIONER PERRY: You are suggesting
9 they could be used for this purpose? They may not
10 be at the present time, but they could be used?

11 DR. ARMSTRONG: Yes.

12 COMMISSIONER GRANT: I want to ask some-
13 thing on definitions. What I would like to discuss
14 with you is the use of the Rusk Definition in its
15 relation to the Estate Tax Act and the Income Tax
16 Act as it applies to gift taxes and to charitable
17 donations.

18 What gives me some concern is that if
19 the Rusk Definition as set forth on page 50 were to
20 be applied, take as an example to the Estate Tax Act,
21 that "one who by reason of a mental or physical handi-
22 cap is substantially and permanently limited in the
23 performance of the activities of daily living", how
24 would that apply to persons who have reached an age
25 in which they are mentally or physically handicapped
26 due to their age or due to senility? Unless there is
27 some qualification placed on that, it would seem to
28 me that it would cover a great many gifts under the
29 Estate Tax Act which would qualify for tax exemption
30 but which would not be within the meaning of the def-
initon.



1 DR. ARMSTRONG: I mentioned a point you
2 did not consider in our discussion, the need that there
3 would have to be some qualification, otherwise every per-
4 son over 80 ---

5 PROFESSOR LINDEN: I think, perhaps,
6 in this half a million people the very severely disabled
7 are beyond the employable age of 65. At present you
8 may know the disability allowance comes into operation
9 at 18, I think, and is cut off as soon as the person goes
10 on to the old age pension at 65 if he passes the limited
11 means test and 70 if not. It may be that a similar
12 provision could be worked out whereby once people go
13 beyond a certain age and employability then this defin-
14 ition would no longer apply in that we actually remove
15 half of our disabled people from this specific kind of
16 help. What we are more interested in are the younger
17 people, the people of employable age. We are trying to
18 rehabilitate them.

19 As soon as somebody gets over 70 he
20 is not a great deal of worth to the world of industry
21 whether he is healthy or not. There is not too much
22 future in the industrial world.

23 We have not considered it in the light
24 of estate taxes. Probably you have to cut that off.

25 COMMISSIONER GRANT: That applies to
26 gift taxes, under income tax.

27 PROFESSOR LINDEN: Yes.

28 COMMISSIONER GRANT: And certainly it
29 applies to charitable donations?

30 PROFESSOR LINDEN: Yes.



1 THE CHAIRMAN: You want an amendment
2 on the definition.

3 PROFESSOR LINDEN: If an age limit was
4 put on you might be required in the definition to
5 specify which are the activities of daily living as
6 well. It would not be an easy thing.

7 THE CHAIRMAN: Just add after the word
8 handicap "not resulting from age". It takes care of
9 that.

10 COMMISSIONER PERRY: I have one small
11 problem of definition. Where do disabled War
12 veterans fit into the scheme of things, and are they
13 in here?

14 DR. ARMSTRONG: I do not think they
15 are. They are adequately provided for under the Depart-
16 ment of Veterans Allowances. But, if they were treat-
17 ed as civilians they certainly would be.

18 COMMISSIONER PERRY: There are a few
19 concessions sprinkled through the statutes. There is
20 one concession I recall under the estate tax.

21 PROFESSOR LINDEN: Actually, sir, the
22 War veterans, the people disabled by means of industrial
23 accidents, are pretty well in a better position across
24 the board than these other groups that have been born
25 disabled or become disabled by odd bits of accidents.

26 COMMISSIONER PERRY: Are all these to
27 be added for present treatment that is granted for
28 War veterans? I want to clarify the point.

29 PROFESSOR LINDEN: It may be that
30 War veterans and industrially disabled ought to be treat-



1 ed equally as well. But, again, we did not get into
2 that area.

3 COMMISSIONER PERRY: You think of them
4 as being outside your terms of reference?

5 PROFESSOR LINDEN: There is a special
6 legislation governing those groups and if anything they
7 are given better treatment. The War veterans have a
8 special appeal to all Canadians. These people are dis-
9 abled because of their fighting for the country. They
10 paid something for their country, and we have a special
11 duty to War veterans.

12 Again, with the industrially disabled,
13 there is built up this idea in industry that caused the
14 industry, by means of insurance and contributions, to
15 help to bear some of the costs of rehabilitation and
16 care. These groups are outside these two other major
17 disabled groups. I think you could distinguish them,
18 but it may be they should be treated equally.

19 COMMISSIONER PERRY: We can take your
20 brief as being silent in these areas.

21 DR. ROEHER: I think the crux of our
22 ultimate hopes for the disabled as a whole is to have
23 a kind of approach to their problem that industry in
24 general has applied to the industrially disabled. In
25 the light of these things it would be unnecessary if we
26 had that kind of approach. In the absence of this,
27 and they leave some kind of break to come through, I
28 think we will always be fighting for bits and pieces
29 of this kind. I think industry is coming very close
30 to handling most of the problems on some of the inciden-



tals.

THE CHAIRMAN: Let us go section by section. The first section is A which is exemption of products produced in non-profit sheltered workshops.

I think we covered that. Moving on to B which is on Page 22. Commissioner Walls informs me he has a question.

COMMISSIONER WALLS: There you are asking for exemption for your own institutions on the same basis as bonefide public hospitals, and I think you use the word "public" advisedly because you recognize that under the recent changes in the sales tax that where a factory has an adjoining hospital for its own employees they are now subject to tax on most of the things you would like to have, treatment chairs, emergency operating tables, infra red lamps, things of that calibre.

I would presume the reason you are taxed on these is you are almost in the same category as in the hospital or a treatment centre attached to a factory.

There is one of the difficulties that you run into of drawing a line between your particular type of hospital exemption and the treatment for other hospitals.

PROFESSOR LINDEN: It is the workshop aspect of this recommendation, I think, that we are dealing with. There are a great many institutions that provide care and education for disabled people who are in no way connected with the factory.

Our point is that they provide treatment



1 physiotherapy, very often occupational therapy. Very
2 often it is the same kind of treatment provided in a
3 public hospital as defined by the authorized Public
4 Hospital Acts or certain institutions as defined by the
5 Minister of National Revenue.

6 The point is that the public hospital
7 is a specific kind of institution. There are other
8 institutions that are not really public hospitals but
9 they require people to live in these institutions and
10 they require that those institutions be supported, in
11 part, by Government funds.

12 It is our submission that this is
13 against the grain of the rehabilitation theory, to try
14 and keep people in society, try to keep them in their
15 own homes and out of institutions and try to keep them
16 independent, or their organizations help them to be
17 independent. We say the rehabilitation theory and mon-
18 etary theory are clashing here and the Government is
19 assisting institutions which bring people into those
20 institutions to live and which seek Government assistance.
21 Yet, they are not assisted by means of rebate of
22 sales tax.

23 Those institutions that advance the
24 rehabilitation theory to send the people home at night,
25 go and live at home because it is better for you there.
26 Again, this indirectly is promoting institutionalization
27 for people by promoting institutions that promote the
28 institutionalization of people and this increases the
29 cost and runs counter to the kind of thing we are
30 trying to do.



1 THE CHAIRMAN: If the Government conceded the
2 point you request, classed these institutions to be
3 the same, whether out-patient or in-patient clients,
4 but what you are saying is they should favour out-
5 patient clients so as much care as possible can be given.
6 The sales tax exemption should be withdrawn and placed
7 where it is not.

8 PROFESSOR LINDEN: If you are going to choose,
9 that might be a wiser choice in terms of rehabilitation
10 theory.

11 Many people who are institutionalized and
12 we do not want to penalize those that have to be, it
13 seems strange that one would help those institutions
14 that advance institutionalization and hinder the other.

15 THE CHAIRMAN: A great importance has been
16 placed on home care.

17 DR. ARMSTRONG: There is some inconsistency.
18 When I first started working in this field, there were
19 two institutions. The one in the Regina area adminis-
20 tered by the Government which was completely sales tax
21 exempt because of Government sponsorship. The other in
22 Saskatoon was administered by a voluntary agent and for
23 that reason there had to be sales tax on everything we
24 purchased. It always seemed a little inconsistent to
25 me that when I acted as a Government official I was
26 able to purchase sales tax exempt but when I acted as
27 a voluntary administrator we paid sales tax on everything
28 we bought.

29 COMMISSIONER WALLS: Of course your provin-
30 cial institutions are specifically exempt.



1 DR. ARMSTRONG: Yes.

2 COMMISSIONER WALLS: Any other institution
3 is subject to Ministerial decision and the only thing wrong
4 in it is those words "must reside in". If the words
5 "must reside in" were taken out it still may be left to
6 Ministerial decision.

7 PROFESSOR LINDEN: Yes. The words "support-
8 ed by Government grants". Many of these institutions
9 are supported by Government grants, but there are a
10 few that try to go along and they are penalized either
11 by refusal to ask for Government assistance or just in-
12 ability to secure Government assistance.

13 The other matter on this thing -- it is
14 strange that a public hospital has a blanket exemption
15 so that goods sold to them need not be collected by
16 the vendor yet the public insitutions for the purpose
17 to provide shelter, they are given a rebate and we
18 wander around to try and figure out just how this happen-
19 ed.

20 There is an application for rebate and all
21 kinds of very complicated calculations and I was given
22 to understand that in some cases it would take a genius
23 actuary to figure out just the amount collected by tax-
24 ation.

25 It seems strange there would be two methods
26 of dealing with two groups doing the same thing. It
27 should be easier for the whole nation to treat everyone
28 the same way.

29 COMMISSIONER PERRY: I imagine the hospital
30 grants would be given in a moment of weakness.



1 DR. ARMSTRONG: We made representation
2 to the Minister of Finance. This is a necessary general
3 guide. I still feel it is an inequitable argument that
4 the voluntary agencies, where they could continue to
5 provide some of the services rather than have everything
6 handed over together.

7 I think it maintains greater community in-
8 terest.

9 COMMISSIONER GRANT: The difference in treat-
10 ment might very well be due to the fact that the Govern-
11 ment are simply shifting the burden of proof. There is
12 no difficulty in establishing what is a hospital, but
13 there is difficulty in establishing what is a rehabil-
14 itation organization.

15 DR. ARMSTRONG: I think that would be true
16 up until perhaps seven years ago.

17 But, I think in the last seven years, using
18 a conservative period, that to define what is a rehab-
19 ilitation institution would be clear-cut and definite.

20 COMMISSIONER GRANT: If that was, this really
21 no longer applies.

22 COMMISSIONER PERRY: These things get down
23 to basic human elements. One episode that I heard of,
24 and all names and places are fictitious, is that the
25 household maid of a prominent tax official, when the
26 family iron burned out, said to the wife of the prom-
27 inent tax official, "do not go out and buy one, my boy-
28 friend works at the hospital and he will get one tax
29 free through the hospital."

30 This is the sort of thing of which the



1 administration is very conscious.

2 DR. ARMSTRONG: I heard the story but it was
3 with regard to a superintendent.

4 THE CHAIRMAN: In the City of Windsor.

5 COMMISSIONER PERRY: This is a true story.
6 I happen to know the gentleman quite well.

7 PROFESSOR LINDEN: In any event, the Comm-
8 issioners are well aware that people will always try to
9 attempt to evade taxation. They do not declare the in-
10 come they earn. Every system will be subject to abuse.

11 THE CHAIRMAN: I do not imagine the abuse of
12 this sort of thing should cause one not to recommend a
13 decent solution.

14 PROFESSOR LINDEN: It would not be any worse
15 for a rehabilitation institution, for hospitals. These
16 are human organizations and are subject to difficulty.

17 COMMISSIONER PERRY: I am only recognizing
18 the cause suffered.

19 COMMISSIONER WALLS: With respect to C.

20 THE CHAIRMAN: Are you going to C? There
21 are many names and the only ones I can pronounce are
22 streptomycin and pheno barbital. You can pronounce the
23 rest of them.

24 COMMISSIONER WALLS: I think you have a good
25 case because I would not know why liver extracts for
26 anaemia should be specifically exempted and not the drugs
27 that are required for any other specific sickness. One
28 of the big troubles, and we have had a lot of repres-
29 entations with regard to tax taken off drugs, ^{is} how do you
30 define drugs.



1 The second problem you bring out is the
2 constant changes in these drugs, new development even
3 of the same drug.

4 I think it certainly would be advantageous
5 for the medical association to submit each year a list
6 of the new drugs that should be included so it would be
7 up-to-date. But, you still get back to the danger of
8 defining what is a drug because we have two points to
9 that.

10 First of all, that there are many of these
11 drugs which are produced also under a patent medicine
12 performing the exact and same function. So, most people
13 submit it should be drugs covered by prescription.
14 If we do that, are we not going to run into trouble of
15 like drugs perhaps which was under patent medicine form.

16 To be a little facetious, I would remind you
17 of the fact that in some of our lifetimes the biggest
18 tax earner by drugs was you had to have the doctor's
19 prescription to get liquor. Some of us still use it for
20 medicinal purposes. I think that it is quite important
21 that there be some means of defining drugs, if drugs
22 are to be exempt.

23 PROFESSOR LINDEN: We do not envy the
24 Commissioners in their task to make some sense out of
25 this area especially as compounded by the Customs Tariffs
26 and the vast list of various drugs and some of these
27 chemicals are used in different things, for fertilizer
28 I understand and all kinds of odd purposes and again
29 there is also the problem from our point of view that
30 some drugs that are required by disabled people are the



1 same drugs required by other people who are not disabled
2 who get sick.

3 Your task is not an easy one. Again, this
4 suggestion you make that perhaps the pharmaceutical in-
5 dustries or medical organizations and our organization
6 could co-operate in a yearly look-see. I think the thing
7 that could help it is to get an account of generic
8 terms.

9 COMMISSIONER WALLS: You recommend in your
10 brief that pheno barbital should be exempted.

11 PROFESSOR LINDEN: It may be that Commissions
12 be asked that all chemicals be exempted. You have got
13 the income tax exemption which is really another side
14 of this problem. It may be the way to handle this is by
15 allowing, and I do not like the idea, a rebate. The
16 only way you can handle this is allow specific classes
17 of people rebates of the taxed portion of the chemical
18 they purchase because you probably would not be able
19 to recommend exemption of all chemicals at all levels
20 because it is a multi-million dollar business, I under-
21 stand, and so many of them are things like aspirin which
22 must net the Government millions of dollars.

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1 THE CHAIRMAN: On Page 27 you have said
2 that the following is a list of drugs used in the treat-
3 ment of cystic fibrosis. You do not say they are used
4 only for that?

5 PROFESSOR LINDEN: No, of course, and
6 many of these are not used only for this purpose. This
7 again has been our programme of finding some method
8 whereby if you decide disabled people should have their
9 drugs tax free, whereas just sick people should not,
10 of defining

11 We approach the thing in different
12 ways. Where you can determine a certain product or
13 chemical is used solely or only by disabled people your
14 problem is not as difficult, and again this may be
15 one of the reasons why there are lists of things. An
16 artificial limb can only be used by a person who is
17 lacking a limb. But these other things, for example,
18 the patient Lifter of self-help devices -- I do not
19 know if the Commissioners have had a look at these ---

20 THE CHAIRMAN: Pictures?

21 PROFESSOR LINDEN: The pictures that
22 we have gathered on page 60 (at great expense to the
23 management, I might add) to assist you in seeing the
24 kind of thing we are talking about. I know I had no
25 idea of what some of these things were, but when you
26 see the picture you can understand a lot better.

27 But many of these things are used in
28 treating people other than disabled people, and this
29 again is one of the great difficulties.

30 THE CHAIRMAN: We are grateful for your



1 bringing us only the pictures and not the articles.

2 DR. ARMSTRONG: They would have been
3 rather difficult to handle.

4 Mr. Commissioners, I think one of the
5 areas that we are really concerned with is that of the
6 certain specific diseases in which drug therapy has
7 played a major part, such as cystic fibrosis or tuber-
8 culosis or diabetes.

9 The suggestion that was made is that
10 it would not be too impractical to supply a list of
11 the current drugs used in the specific areas. I am
12 sure in the area of cerebral palsy the application of
13 drug therapy is not nearly as important as it would be
14 in cystic fibrosis or as it would be in diabetes, and
15 any of these areas of prime importance in the use of
16 drugs could be very easily identified.

17 THE CHAIRMAN: Why should your drugs
18 be exempt and not those for cancer and heart and
19 pneumonia?

20 DR. ARMSTRONG: If there were a drug
21 that was really effective enough in controlling cancer
22 there would be a justification, but I doubt very much
23 whether -- and I am not a medical man ---

24 THE CHAIRMAN: Or stomach ulcers.

25 DR. ARMSTRONG: Pardon?

26 THE CHAIRMAN: Take something else --
27 stomach ulcers. I am asking why should certain problems
28 be designated as to justify exemption?

29 DR. ARMSTRONG: First because these
30 are continuing incurable conditions. The cystic fibrosis



1 child used to die in the first two years of life. With
2 the use of these modern antibiotics some of them have
3 now reached into adolescence and we expect that some
4 of the less severe cases will reach adulthood.

5 The cost of these drugs even with all the
6 concessions that can be made -- and a good many drug
7 houses are supplying them at wholesale cost because of
8 the continuing cost of them -- still cost the family
9 \$50.00 to \$100.00 a month. The same goes for diabetes.
10 The drug therapy needed for the control of that is a
11 continuing thing.

12 THE CHAIRMAN: Have you put insulin in
13 here?

14 DR. ARMSTRONG: I think it is in.

15 PROFESSOR LINDEN: I think it is in.
16 Maybe it is now exempt, sir.

17 THE CHAIRMAN: It is already there.

18 DR. ROEHER: Again it is an interesting
19 question whether this is the way to handle this kind
20 of problem where you have this excessive cost. Do you
21 do it by way of tax relief or do you do it by way of
22 public support?

23 THE CHAIRMAN: Quite; that is something.
24 Tax relief only extends to tax payers and leaves out
25 people who are not tax payers, well over half of the
26 population.

27 PROFESSOR LINDEN: The other method
28 of helping this is by making exempt the institutions
29 that are providing drugs like this and purchasing the
30 equipment. That would go some way towards assisting



1 the problem of the individual.

2 But again there should be a way of ex-
3 panding on the present list in a fair way in order to
4 determine which are similar things, and again these
5 things are here to help disabled people. We have to keep
6 the list up to date but again we cannot allow it to go
7 all the way; at least it may not be possible to do that.

8 This again is a job that we do not
9 envy you.

10 THE CHAIRMAN: All right. We move on
11 to D. You have a question, Commissioner Walls?

12 COMMISSIONER WALLS: Yes. First of
13 all under D, I want to lead up to something. In the
14 section of the Act dealing with that it leaves it finally
15 up to ministerial decisions as to what shall comprise
16 tax-free printed matter. I wondered if your organization
17 have specifically asked for a ruling on your printed
18 pamphlets?

19 PROFESSOR LINDEN: One of the appendices,
20 Appendix 6 on Page 64 was in answer to a submission on
21 behalf of one of the co-operating organizations. They
22 sent in all of the booklets that they had at that time.
23 You see an array of booklets. I have a few of these
24 booklets for you if you would like to look at them.
25 Perhaps we could enter them as Exhibits.

26 The whole purpose of all of these
27 things was to inform the public about these diseases
28 and perhaps indirectly to inform them of their organ-
29 ization and perhaps have some people donate something.

30 Yet the answers that come back are



1 that some are subject to customs duty and sales tax,
2 some are subject to one or the other, some are subject
3 to neither and the major definition seems to be the
4 existence or not of a binding -- a book or a non-book.

5 COMMISSIONER WALLS: In one place you
6 say it will be tax free if it has a staple in it, but
7 that is not correct. If it is loose-leaf with a single
8 staple, it is not exempt.

9 PROFESSOR LINDEN: Yes. It is if
10 the staple is in the back of it, as some of those book-
11 lets are, rather than on the top just stapling pages
12 together. It becomes sort of a little booklet where
13 you can open it. If the staple is in the middle, it
14 is then a booklet or something that is bound.

15 It struck us as rather unfortunate
16 that this would be the definition that would be made,
17 because first of all the ordinary little folded pamphlet
18 is probably more effective in that it maybe does not
19 say as much but it is short, it is sweet; people read
20 it and understand it. This is the kind of thing. It
21 is cheaper again for the institution to distribute these
22 little things, and yet tax is imposed upon them, whereas
23 the fatter booklets that cost a lot more and which are
24 probably less likely to be read by the general public
25 are given an exemption. It is difficult for us to
26 determine why -- why we do not look at the purpose of
27 the document and ignore whether it is stapled or bound
28 or not bound.

29 THE CHAIRMAN: Well, it is pretty
30 hard to explain that to you.



1 COMMISSIONER WALLS: There is one suggestion
2 of which I wonder if you have considered taking advan-
3 tage. If you were to combine these pamphlets in a
4 house organ that you issued a minimum of four times a
5 year, then it would be totally exempt no matter how you
6 bound it. It then comes under the heading of magazine
7 and literary papers unbound.

8 That would be one way for your organizations,
9 with new information, instead of issuing individual
10 pamphlets, to issue it in the form of a house organ.

11 DR. ROEHER: The problem there is that it
12 is pretty well putting them in the competition for
13 people's attention. You have to be very careful in how
14 you present your material. A large document generally
15 is less effective or no more effective, say less effective,
16 than a series of short brief pamphlets spread over a
17 period of time.

18 From the cost point of view, since the cost
19 of literature for a voluntary organization is a very
20 critical one, binding them tends to be too expensive.
21 The shift has to be in the other direction; but when you
22 do it that way you are paying extra.

23 COMMISSIONER WALLS: It does not specify
24 size
25 what /the house organ has to be. It would be a matter of
26 whatever was new, what any one of your member bodies
27 dealing with correlation of information wanted to put out.
28 It could be in the form of what you would call the
29 house organ of the particular organization, and then it
30 would be tax exempt.

DR. ARMSTRONG: The Department is very helpful



1 in suggesting ways in which we can use the exemptions
2 that already exist. We get excellent co-operation.

3 THE CHAIRMAN: I think we will break for
4 ten minutes now and we will come back and consider estate
5 taxes and income taxes.

6 THE SECRETARY: Does Professor Linden wish
7 this group of pamphlets entered into the record as an
8 exhibit?

9 THE CHAIRMAN: It could clutter up the record
10 too much. Put it into your files.

11 PROFESSOR LINDEN: Whatever is most convenient.
12 I thought it would be interesting to look at some of
13 the different literature.

14 THE SECRETARY: Fine, thank you.

15 THE CHAIRMAN: We will now break for ten
16 minutes.

17
18 ---SHORT RECESS.

19 THE CHAIRMAN: Are you ready?

20 We will skip customs duties. I see little
21 pertinence in labouring that. It is beyond our job, I
22 believe.

23 That would take us to page 37, the estate
24 taxes. Your recommendations under that are in Paragraph
25 8.

26 The only comment I am going to make myself
27 is that at the bottom of 37 I have made a margin note to
28 the effect that there surely must be some limit imposed
29 on such an exemption. There must be a fair limit imposed.
30 I would think. Have you any suggestions as to what that



1 should be?

2 PROFESSOR LINDEN: Actually, Mr. Chairman,
3 this is not really an area of major concern to us because
4 again the estate tax problem is primarily a problem that
5 deals with wealthier people. Of course, the vast majority
6 of disabled are not very wealthy. We are not really
7 that concerned with this problem. It was just that there
8 seemed to be an illogical taxing of the specific sums
9 that are allowed as exemptions under the Act.

10 There seems to be some recognition of the
11 disabled husband, but only very partial recognition,
12 in that if he has a child he can get some little extra
13 exemption. But there is no recognition for the disabled
14 child.

15 The business about the gift is really part
16 of something that runs through, as you notice, the
17 estate tax, the gift tax and the income tax. It is probably
18 the income tax part of this recommendation that is most
19 important for our purpose.

20 THE CHAIRMAN: Before we come to that, I think
21 it is only right to ask you if you are aware of any
22 hardship that results which would be taken care of by
23 your recommendations?

24 PROFESSOR LINDEN: Any hardships? Well, yes.

25 THE CHAIRMAN: Are we just in a vacuum, or
26 are you talking accurately? Are there people being
27 affected by our laws now in an unfortunate manner, who
28 are not getting sufficient money because they are dis-
29 abled and are thus unable to live in an adequate manner?

30 PROFESSOR LINDEN: Again in the context of



1 this estate tax suggestion, sir, and of course in the
2 general context, there are a great many disabled people
3 who are not being looked after.

4 But what we are really looking for on this
5 thing is to try and give some little spur to the wealthy
6 relative to give some amount to a disabled individual
7 and to treat the disabled individual similarly to a
8 charitable institution, whereas now the people are en-
9 titled to give estate tax free money to institutions
10 or organizations, charitable, educational or religious;
11 but they cannot give it to an individual and get the tax
12 exemption.

13 We thought that if this were added in as
14 part of the charitable exemption it might assist some
15 of these people to keep independent from Government
16 assistance. Again this would only concern a very few
17 people and this is why, sir, this is not really one of
18 the major aspects of the brief.

19 THE CHAIRMAN: Thank you. Anything else?

20 PROFESSOR LINDEN: We are not pressing too
21 hard for that.

22 THE CHAIRMAN: I suppose we ought to dis-
23 cuss and wrap this up with gift taxes at the same time.

24 PROFESSOR LINDEN: Mr. Chairman, actually
25 if I may add this at this point, the major part of this
26 special creation of a method of giving money in trust to
27 or for a disabled person really comes within the income
28 tax part.

29 If somebody gives something to charity they
30 do not have to pay income tax on it. The problem here is



1 that people of limited earning capacity, people who make
2 five or six or seven or ten thousand dollars a year,
3 try to build up some kind of fund for their disabled
4 child who will require care when they are gone. The
5 problem is how to assist them to do this. Really it is
6 within the income tax provisions that perhaps the relief
7 could be given rather than through the gift tax provisions
8 and through the estate tax provisions.

9 It would be to allow them to have something
10 like a superannuation device whereby now people, lawyers,
11 doctors and professional people as well as other people
12 are entitled to put a certain amount of their income
13 aside for some future date when they are beyond earning
14 it, and they can take that money out of the funds and
15 pay taxes at that stage rather than at the earlier
16 stage when they are earning more.

17 If there could be such a provision in the
18 Income Tax Act where people could in a tax exempt way
19 put money into some kind of fund to look after their
20 disabled children when the parents are gone.... It is
21 something similar to a superannuation thing that we are
22 trying to recommend here.

23 COMMISSIONER GRANT: You have in mind some-
24 thing in the nature of a deferred gift?

25 PROFESSOR LINDEN: Yes.

26 COMMISSIONER GRANT: As distinct from what
27 is now possible under the Income Tax Act whereby you,
28 a parent for instance, can gift \$4,000.00 or half of
29 his taxable income of the previous year.

30 PROFESSOR LINDEN: Yes. That is on the gift



1 tax, of course, and most of the people who have dis-
2 abled children are not giving gifts of over \$4,000.00
3 that they would have to worry about the gift tax. But
4 it is the income tax that we are looking at. If you give
5 it to charity you get exemptions; you have to pay no
6 income tax on it -- certainly no gift tax, but no income
7 tax on that portion of the money that you give.

8 But if you give it in trust for your child,
9 then that is not considered an exempt portion of your
10 income.

11 So the person who is earning \$7,000.00 or
12 \$8,000.00 in a year might reclaim 20 per cent or 25 per
13 cent off the money that he is putting into this fund on
14 behalf of his disabled child at great sacrifice to
15 himself.

16 It is our submission that if this could be
17 tax exempt, going into the special fund set up for the
18 child on the basis of superannuation or some kind of a
19 pension plan, this could go a long way towards assisting
20 the disabled persons.

21 COMMISSIONER GRANT: I am just not clear as
22 to how you would have that established so as to gain a
23 tax concession which is not permitted at the present
24 time.

25 THE CHAIRMAN: I do not think they are.

26 It is paragraph 99 on page 47 that you are
27 speaking to, and it does not clearly state this. It
28 states the principle rather than the application, I
29 think.

30 COMMISSIONER GRANT: Yes.



1 DR. ROEHER: I wonder if I could cite a
2 fairly common example of this for the mentally retarded
3 alone. We have somewhere in the neighbourhood of 75,000
4 in Canada who are in that category. In the past it
5 was considered that once the parent became incapable
6 they needed to be institutionalized. The pattern now
7 is away from institutions and it is accepted that they
8 can live within the community, whether it be a boarding
9 house type of thing with a supervisor, or something along
10 that line.

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T/ND 1 DR. ROEHER: The fear that a lot of parents
2 and most of the parents of these children are marginal
3 income people -- their greatest fear is what assurance
4 is there that their child will have some care unless he
5 is institutionalized in a Government institution.

6 These are the people that if they could put
7 something aside on a deferred basis so there is some
8 assurance after death are incapable themselves. If
9 there is some means that this individual would get reason-
10 able care supported by voluntary Government structures
11 as exist, it would be possible for these people to
12 stay in the community and the parents could accept the
13 fact they can stay in the community.

14 These people are generally not in a position
15 to put money aside -- not very much. If they are taxed
16 on their income before they can put any of this money
17 aside, it would be next to impossible to have savings.

18 Our suggestion is, it is no more unreasonable
19 than in a pension plan of having a way of deferring the
20 taxation on this. Even this tax, when it comes back to
21 the individual, it would be at a lesser rate. This is
22 the philosophy behind this and this is the trouble with
23 our many severely disabled people who live in the
24 community.

25 THE CHAIRMAN: You would like the principal
26 set aside deductible from the donors and the transfers
27 of income tax. You would also like, on the money not
28 brought into his income to accumulate without tax but
29 when that was disbursed it would become taxable in the
30 hands of the beneficiary both as income and principal.



1 DR. ROEHER: I think we have to be reason-
2 able. We think this would be a reasonable approach of
3 helping those families in marginal income.

4 PROFESSOR LINDEN: A type of income pension
5 to disability type of pension.

6 DR. ARMSTRONG: I think this would have a
7 tremendous psychological effect on parents of disabled
8 children, to provide for their own rather than assuming
9 that the Government or somebody else is going to take
10 over once they are unable to continue.

11 DR. ROEHER: We feel if anybody says it
12 affects state taxes, there is this basic amount -- we
13 are concerned with the basic amount, not a way above
14 that.

15 THE CHAIRMAN: Some rules have to be drawn
16 in order to regulate these and restricted the purpose
17 of which it is intended.

18 Going back to income tax, the first item
19 is educational expenses. You would like educational
20 expenses with regard to training institutions for the
21 disabled to include books and room and board to be
22 deductible.

23 The room and board of that shakes me a little
24 bit in that it is pretty hard to regulate.

25 PROFESSOR LINDEN: If there is a person who
26 was living at home, perhaps there would be no need for
27 this. Again, with these disabled children, very many
28 of them must go to other schools, to resident schools
29 across the country and sometimes even the United States
30 and Europe to get the proper kind of care. It would



1 seem that this kind of thing should be advanced if possible,
2 and one of the ways of doing that is giving tax exemption
3 to a parent who does send his child to the best possible
4 school for his disability to give him the whole exemption,
5 not merely the tuition fee. In any event, the tuition
6 fee exemption is -- when you come to the actual student
7 who, himself, is a tax payer and to a large degree this
8 is an illusory exemption. Even the university student
9 very seldom earns more than \$1,000.00 a year.

10 To give him the deduction for his education
11 expenses is not really doing very much. This is especially
12 so with the disabled person who even the older more
13 mature is working all the time to the best of his ability
14 still cannot earn more than \$1,000.00 or \$1,500.00 a
15 year.

16 So, the young student certainly is not
17 earning that, and to allow him a rebate or deduction
18 from his income tax is not giving him very much.

19 Our suggestion is that deduction is probably
20 most important on any of these things and anything we
21 can do to promote the education of disabled people,
22 of course, in addition to the general community is
23 going to help the country and the individual involved.

24 Not only give the education expense deduction
25 to non-profit institutions, but should also give to
26 the parents, your chief supports of these disabled
27 children, in order to encourage them to educate their
28 children to the best of their ability.

29 THE CHAIRMAN: Is there anything else on
30 education?



1 Medical Expenses is the next item.

2 PROFESSOR LINDEN: There was transportation
3 costs too, sir, on Page 43, and then medical expenses.
4 Really they are linked in that medicine and transport-
5 ation are both additional expenses that disabled people
6 have.

7 Recognition to both of these items in the
8 present Income Tax Act -- the transportation cost allow-
9 ance goes as far as the ambulance to and from hospital
10 and it is recognized that the ambulance would be part
11 of the medical costs, but not the continuing kind of
12 expense that many disabled people have.

13 They have to take taxis to get to places
14 or need special kinds of transportation. No recognition
15 is given to this.

16 Similarly, medical expenses, certain items
17 are enumerated but there are other items that are not
18 enumerated, that these are still a part of disability
19 expense. And a major one is getting back into chemicals
20 which are not under prescription. There are many dis-
21 abled people who have to take chemicals all the time
22 but do not have to get it under prescription. Prescription,
23 I think, is a good way of regulating the thing.

24 There are still some of these people who
25 happen to be on drugs which are not prescription drugs.
26 Similarly, certain products that these people need which
27 are not deductible from income tax -- self-help devices,
28 walkers, commodes, that people might have to buy for
29 their own use. It is not an item of medical expense and
30 clearly is a medical expense, and the way that could be



1 regulated is that equipment that is bought on a doctor's
2 prescription could be deductible.

3 THE CHAIRMAN: Some of these things are
4 listed in the section but it misses a great number.

5 PROFESSOR LINDEN: Yes. It is so hard to
6 find out the specific items which they missed. It is
7 very easy when you have the list of items to see the
8 ones there and you might think of one or two that are
9 not there.

10 But the main examples we could think of were
11 the self-help devices, walkers aids and commodes.
12 Somebody needs them and prescribed by doctors, they do
13 not get any reduction on them.

14 THE CHAIRMAN: I would think it is dangerous
15 to put in a catch-all section, and I would suspect
16 that the Department is strongly against it, but I would
17 not know.

18 PROFESSOR LINDEN: It would appear in the
19 past they have been. This may be one of the problems
20 of having re-defining every year as new things come up.

21 Even if you put a catch-all clause in, you
22 probably have this same kind of constant problem -- does
23 this particular item come within the catch-all clause.
24 You have to try and have the thing flexible. You have
25 to try and keep some of it within the administrative
26 process and keep the thing up to date. But, again,
27 there is some difficulty with this catch-all clause.

28 THE CHAIRMAN: Thank you. You have got to the
29 \$500.00 exemption for disabled persons, and the recommend-
30 ation is paragraph 98.



1 PROFESSOR LINDEN: Again the major part of
2 this is the different treatment, the different kinds of
3 disabled persons. The Witthuhn case, 1957 Dominion Tax
4 case 174 is just one example of how odd the decisions
5 can be.

6 I am sure there were many more other ones.
7 Somebody confined to a rocking chair or to bed is not
8 entitled to this exemption. That is to say, we should
9 look here at disability. If we want to help a disabled
10 person we should help all disabled people. To limit
11 it to the blind people or the people in bed is to ex-
12 clude very many disabled people, and we recommend any
13 handicap should be assisted if these other groups are
14 to be assisted.

15 The major group that is left out is the
16 mentally disabled.

17 THE CHAIRMAN: Should this \$500.00 exemption
18 continue if other matters you speak of be exempted?

19 PROFESSOR LINDEN: There are different aspects
20 of the thing. We like the idea of \$500.00 exemption
21 because it does act as an incentive to a disabled per-
22 son.

23 We tell him if he earns \$1,000.00, like
24 everyone else he has to pay no income tax. We say to
25 him, you go out and work and if you earn \$1,500.00 we
26 still will not tax you.

27 It is our submission that disabled people,
28 who are able, will strive much harder to get up to the
29 \$1,500.00 level. That again we all know and we all
30 recognize you get to the stage where you are working



1 and so much of your money is going into income tax and
2 this has a kind of dampening effect on his ardour for
3 work. With the disabled, it is especially that way.

4 THE CHAIRMAN: I do not think you are being
5 consistent. You put everything on the basis that your
6 disabled people have higher costs than people who are
7 not disabled and they need exemption. You have not come
8 forward and said that if they earn money they should
9 not be taxed as much as other people. I do not really
10 think it is, up to this point, what you intended. When
11 I first started on this I said, is this a request re-
12 lating to taxation for these people. I wouldn't think
13 so because I can see no particular justification for
14 it on the basis of taxation.

15 I can see justification where they have extra-
16 ordinary costs which everybody else does not have. There
17 should be some exemption. If this is concession to cost,
18 I can understand it. If it is simply to say to pay less
19 taxes, I do not think I do fully understand. If related
20 to cost, surely it is in lieu of other things of which
21 you said.

22 DR. ARMSTRONG: I think this may be true.
23 I think this exemplifies the principle, we are trying to
24 get to the incentive for the disabled to get out and
25 help themselves. I think in considering this, we were
26 thinking of the disabled, a pension for instance that a
27 totally disabled person gets now.

28 There is a ceiling of how much income he
29 can have in addition to that. What we run into in a good
30 many instances at the present time is, a person who has



1 the disability pension and refuses to help himself
2 beyond the allowable.

3 A disabled person that makes himself indep-
4 endent, if he got exemption of transportation costs and
5 other exemptions that help him compete equally with
6 other people, that this \$500.00 would be superfluous

7 THE CHAIRMAN: That is the way it appears
8 to me. I am prepared to suggest to you that you consider
9 that and give us your views. At the moment I am stuck
10 with the point. I can see justification for the cost.
11 It makes good sense if this \$500.00 is in lieu of
12 costs. It should stay there and the other things ought
13 to go out.

14 PROFESSOR LINDEN: It may be that all of
15 these proposals cannot be accepted. There are situations
16 where people are not affected by this \$500.00 exemption
17 at all and won't have extra costs. Again, there may
18 be people that are very much affected by this \$500.00 and
19 do not have very great extra costs.

20 Here is the difficulty of our position if
21 we have to select. The man in a wheelchair, a parap-
22 legic, does not have very much cost after he is in the
23 wheelchair and getting around. As far as medication is
24 concerned there is not a great deal of cost in that.
25 To a man like that, this \$500.00 exemption could be a
26 very valuable thing.

27 THE CHAIRMAN: I have an idea that disabled
28 people who are employed successfully or successfully
29 earning their living are not particularly anxious
30 to avoid full payment of taxes.



1 What they are anxious to obtain is proper
2 deduction. I think that is what we ought to shift for.

3 DR. ARMSTRONG: I would concede your point
4 on that. I think it is far more important of this type
5 of exemption, transportation cost exemption. This is
6 a definite handicap for a person working as a clerk
7 or machine operator with a comparatively low salary, if
8 he has to pay tax. He has to own his own car, not as
9 a luxury, but simply to run. If this is inconsistent
10 or if there was a choice, I would favour to help with
11 the costs rather than attach a concession.

12 THE CHAIRMAN: That is the way I feel about
13 it. If after considering this matter you have a different
14 idea, do not hesitate to let us know.

15 We have dealt with E, I think.

16 Going to F. I have some difficulty with re-
17 gard to this because I am a little uncertain as to
18 who is to get the 150 per cent deduction.

19 Voluntary organizations spend money on
20 research, that is true. But only part of the money they
21 receive is spent on research and the only person, the
22 tax payer, involved would be the individual that makes
23 the deduction. I think you have to say if you gave
24 money to the Arthritis and Rheumatism Association, of
25 your gift 25 per cent goes to research and after that
26 you are entitled to deduct 125 per cent. It is a little
27 clumsy.

28 DR. ARMSTRONG: It may be done that way.
29 Those gifts come specifically for medical research.
30 Again, the philosophy behind this is, this is important



1 for the nation, that the 100 per cent deduction indicates
2 its importance, but 150 per cent deduction seems to
3 indicate that it is even more important.

4 Again the feeling of our various bodies was
5 that industrial research, certainly medical and chemical
6 research, is just as important and an extra added in-
7 centive might help the giving of more funds for research
8 and thereby be of help to disabled people.

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1 THE CHAIRMAN: But there is no argument
2 or evidence here that you are short of research funds
3 whatsoever. It is often said lately that there is not
4 enough money for medical research. That is the fact that
5 I do not think is very well established. I suspect
6 there is a great shortage in certain areas and suspect
7 there are adequate funds in other areas.

8 I would find it very hard to go along with
9 this without knowing really more about that.

10 DR. ARMSTRONG: I think, Mr. Chairman, there
11 should be supplementary information submitted on that
12 point. Unfortunately neither Dr. Roehrer nor I are in
13 research organizations. We are more service orientated.
14 Certainly the Canadian Heart and the Canadian Arthritis
15 in particular are interested in research funds.

16 With regard to medical research in Canada,
17 I think it should be documented that in Canada the
18 Government and voluntary funds that go into medical re-
19 search lag in comparison behind other countries.

20 THE CHAIRMAN: I think that could be docu-
21 mented.

22 DR. ARMSTRONG: Percentagewise I think we
23 are about one-tenth of the research medical funds that
24 the United States put in, although you might argue that
25 they put in pretty generously.

26 THE CHAIRMAN: You have to go beyond that.
27 You have got to show there are people who will spend
28 those monies and who are not doing research work because
29 they are short of funds.

30 DR. ARMSTRONG: I would rather suggest



1 we ask the agencies which are more involved in research
2 than I am to submit supplementary information on that.

3 THE CHAIRMAN: I do not think it is easily
4 supported, but there may be a very good case. As I say,
5 it is a complicated area.

6 DR. ARMSTRONG: Yes. I personally do not
7 like to see specific disease funds growing up rather than
8 research funds that can be applied where the need is
9 greatest.

10 I think where funds are raised for a specific
11 disease group the condition has to be well established
12 as one of major concern rather than a small group where
13 the instance of the disease is comparatively light.

14 DR. ROEHER: I think this is a very good
15 point about research and it needs considerable study.

16 I think the polio situation is an interesting
17 example where, because the March of Dimes in the United
18 States was able to raise the money, they had ultimately
19 decided that they would gamble \$10 million on intensive
20 work, and it came up with an answer.

21 I think you might have argued there is no
22 case for research. I think it is a case of how to ad-
23 minister it, the programming. There is a lot left to
24 be desired as to how to administer it. It is being
25 handled on a world-wide basis. Nobody would deny that
26 research is the kind of thing that is going to advance
27 us.

28 The other point is as to how you would allocate
29 this. In our own organization any monies coming in
30 for research go into a research trust fund and are reallocated



1 very carefully. I think this is important.

2 THE CHAIRMAN: I quite agree, though I
3 would never have believed that the "whole-man" approach
4 to research would have cured polio.

5 But money for research is extremely import-
6 ant. I am not sure whether this would do what you
7 require, and again I am not sure whether you have the
8 facilities to spend the money.

9 DR. ARMSTRONG: I think this is one of the
10 problems in Canada which is a vicious circle. We are
11 losing a lot of our outstanding research people to the
12 States because we have not got the money to keep them
13 in Canada. It is hard to break the vicious circle that
14 is created. Not until we get the people in Canada are
15 we justified in raising funds for them to spend.

16 THE CHAIRMAN: Thank you very much indeed,
17 gentlemen. You have put this forward very ably, I
18 think, and with some conviction.

19 My worry still hangs round the definition,
20 because if we cannot clearly run down what a disabled
21 person is, the whole of what you have put before us
22 really falls. We shall certainly do our best to try
23 to see if we can achieve something which is administrative,
24 which can be administered.

25 There was a suggestion made which perhaps
26 is the answer to it; I do not know.

27 If you have any further thoughts on that
28 we would be very glad to have them, because this is the
29 central point of what you say.

30 Thank you very much indeed. It was nice to



1 see you.

2 DR. ARMSTRONG: Thank you for a very sympath-
3 etic hearing.

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7
8 SUBMISSION OF
9 THE EDDY MATCH COMPANY LIMITED

10 Appearances: MR. J. A. LAWRASON

11 MR. ARTHUR MAY

12
13 THE CHAIRMAN: Yes, Mr. Secretary?

14 THE SECRETARY: Mr. Chairman, the second
15 brief this morning is being presented by the Eddy Match
16 Company Ltd. Mr. J. A. Lawrason, Vice-President of the
17 Match Division, is here to speak to the brief. Associated
18 with him is Mr. Arthur May, Consultant for Excise and
19 Sales Tax.

20 I would like to enter this brief into
21 the record as Exhibit 265.

22
23 ---EXHIBIT NO. 265: Brief submitted by the
24 Eddy Match Company Ltd.

25 THE CHAIRMAN: Thank you, Mr. Secretary.

26 Good morning, Mr. Lawrason.

27 MR. LAWRASON: Good morning, sir.

28 THE CHAIRMAN: Mr. May.

29 Before we proceed to examine the brief --
30 which we have already read, I might say -- I would be



1 glad if you would care to speak to it or add anything
2 or take away anything which you please.

3 MR. LAWRASON: Thank you, Mr. Chairman. Per-
4 haps I may be allowed to make a few remarks.

5 We have endeavoured to incorporate into our
6 brief all of the pertinent factors that lead up to our
7 recommendations--which can be found, as you are aware,
8 on Page 20.

9 If I may be allowed, sir, I have a few
10 samples here, a small boxful for each of the members of
11 the Commission, to which they might like to make some
12 reference during the discussion on the brief. This
13 is one product we can bring into the courtroom with
14 some ease.

15 If I may be allowed to submit these...

16 THE CHAIRMAN: Yes, by all means. Will those
17 demonstrate the different kind of matches?

18 MR. LAWRASON: Yes, sir.

19 THE CHAIRMAN: Fine.

20 That is most interesting packaging.

21 MR. LAWRASON: The samples before you really
22 are presented to illustrate very clearly to you the type
23 of packaging and advertising to which we make reference
24 in our brief.

25 There is not too much that I can add to the
26 brief, and therefore I am at your disposal for any ques-
27 tions to which you would like to have some answers.

28 THE CHAIRMAN: Yes. Your brief speaks of
29 a very wide spread in the sales prices of matches --
30 \$6.50 per thousand to \$187.50 per thousand. Have you



1 anything here worth \$6.50 and anything worth \$187.50?

2 MR. LAWRASON: Yes, sir. The package in the
3 gold in the front of you is probably one of the most
4 expensive ones that we as a manufacturer produce.

5 This was part of a direct mailing campaign
6 where the actual signatures of several individuals were
7 verkotyped -- which is more than just a typing, a raised
8 kind of lettering which was put on at the request of
9 our customer. These were mailed out, as I recall,
10 over a period of a year to specific addresses as part of
11 a direct mail campaign.

12 Another in the same general area is this
13 yellow package for the Canadian Car and Bus Advertising
14 Limited. The matches actually had a personalization
15 imprint on the front cover which was all hand labour
16 actually done one at a time. This was mailed out to a
17 very extensive list. There were several thousands of
18 people across the country who got these, which we mailed
19 on behalf of the customer to their clients.

20 THE CHAIRMAN: Yes.

21 MR. LAWRASON: At the other end of the
22 scale we have the small ones. I have just the one sample
23 of these, which I would submit. It is a stock package
24 of book matches which are normally sold as a one-for-
25 one-cent at the tobacco counter or as a package for
26 usually around 21 cents for the whole package. Our
27 selling price gets down to the bottom of the scale here,
28 as indicated.

29 I also have another package of imports
30 which are even less expensive. So, they do run this



1 wide gamut.

2 THE CHAIRMAN: The imports are less expensive?

3 MR. LAWRASON: Slightly.

4 THE CHAIRMAN: Are those imported by you?

5 MR. LAWRASON: No, sir.

6 THE CHAIRMAN: Those are competing matches?

7 MR. LAWRASON: Yes.

8 COMMISSIONER WALLS: First of all, it is
9 rather a pleasant surprise to find somebody suggesting how
10 we can make a little more tax than removing the tax.
11 It is the first excise tax product on which the partici-
12 pants have suggested how we could make more money rather
13 than removing it.

14 So I would like to ask you first of all,
15 is your main reason for this that if we removed it on
16 matches we would probably also have to remove it on
17 lighters and that you would then be up against them
18 on a tougher competitive basis than you are when you
19 are both paying excise tax?

20 THE CHAIRMAN: Stand or not, as you please.

21 MR. LAWRASON: I would just as soon stand,
22 thank you.

23 No. If the tax were removed on both commod-
24 ities, I am sorry to say our competition would be just
25 as difficult from lighters as it is to-day with the
26 tax on them.

27 COMMISSIONER WALLS: Perhaps even more so.

28 MR. LAWRASON: Well, I do not know how it
29 could be much more difficult than it is.

30 COMMISSIONER WALLS: You suggest that the



1 tax should be changed from ad valorem to a fixed amount,
2 and really of course there is nothing to oppose that.
3 While most excise taxes are ad valorem there are except-
4 ions in the way of cigarettes and tobaccos that are on
5 a fixed basis per thousand.

6 When you come to the advertising part you
7 say, "Inasmuch as no other advertising media of which
8 we are aware is subject to a special excise tax..." Were
9 you including cosmetics, which in many cases in the
10 package contain advertising of that firm's other prod-
11 ucts?

12 MR. MAY: I think in the match and in the
13 lighter too you are talking about a product which is
14 used specifically as an advertising medium and is bought
15 as an advertising medium. It could well be that sometimes
16 cosmetics are bought and distributed as advertising,
17 but I am not familiar with them if they are. The match
18 more and more is getting to be a product which is used
19 as an advertising medium in itself.

20 COMMISSIONER WALLS: In other words, the
21 point you are bringing out is that advertising as such
22 does not carry an excise tax and your match is only
23 incidental to the advertising? In other words when
24 T.C.A. hands me a box of matches, they are not a bit
25 interested in whether I have a light for my cigarette
26 or not; they are interested that I should know that
27 T.C.A. have jets and so on.

28 MR. MAY: Yes.

29 COMMISSIONER WALLS: The basis of your argu-
30 ment is that on the advertising portion you should not



1 have to pay excise tax?

2 MR. LAWRASON: Correct, sir.

3 THE CHAIRMAN: There is something I do not
4 understand. Is advertising material not subject to tax?

5 COMMISSIONER WALLS: To sales tax, but not
6 excise tax, except when it is part of an excise-taxable
7 article.

8 The only thing is, how you draw the distinct-
9 ion, because, as I say, there are other products that
10 advertise their own firms' various products within the
11 package who pay excise tax also. The only difference
12 is that you are advertising somebody else's product
13 with your matches.

14 MR. MAY: Yes, although I am not familiar
15 with any product that is subject to this special excise
16 tax which is in itself an advertising medium.

17 COMMISSIONER WALLS: Not in themselves, but
18 the point I am getting at is to draw a distinction,
19 because there are other excisable products that carry
20 advertising.

21 MR. MAY: Within them?

22 COMMISSIONER WALLS: Yes; that is the exception.

23 MR. MAY: I doubt very much -- I am not sure,
24 but I suspect -- that where an advertising pamphlet of
25 some kind is included in another item that is subject
26 to excise tax, whether the advertising pamphlet itself
27 is part of the excise-taxable value of the product.

28 COMMISSIONER WALLS: You use as an example:
29 "Many products in Canada subject to special excise
30 duties are taxed on a specific basis" -- to which I agree



1 as regards tobacco. I notice you also use spirits.
2 Of course, they are not under excise tax; they are under
3 excise duty. You would have been better if you had used
4 wine, because wine is under excise tax.

5 MR. LAWRASON: On that point, if I may point
6 out to you that in actual fact what is happening with
7 the trend towards the use of book matches and wooden
8 matches as well as an advertising medium, is that we
9 find that we are up against the other advertising media.

10 As regards the national companies, or those
11 who prepare annual budgets for expenditure on advertising,
12 our sales force endeavour to get matches on that list
13 if they are not already on. In many companies, of
14 course, this is on. We are definitely competing with
15 this product against other advertising media. It has
16 become an accepted article in many many companies as
17 a method of perhaps a little more personal advertising
18 than some of the other media that are used.

19 COMMISSIONER WALLS: You also refer both to
20 excise tax and to tariff simultaneously for reductions.
21 If I go in and buy a pack of paper matches I pay one
22 cent. If I buy wooden matches it is two/^{boxes}for 5 cents.
23 If there were any reduction in either excise tax or
24 in tariff, would the consumer be able to buy either of
25 these commodities for any less than they are buying
26 them to-day?

27 Therefore, if they cannot, might the
28 Government not just as well continue to get the revenue?

29 MR. LAWRASON: Actually, sir, we are not
30 really recommending a reduction in revenue, because you



1 are quite right. With our currency and one cent being
2 the lowest form... The little smokers match, the small
3 box, is traditionally priced at two for five, and I
4 think it has been as far as our records indicate for the
5 last 30, 40 or 50 years -- so far back that we cannot
6 find out when the first one was bought at two boxes for
7 5 cents.

8 Generally speaking, however, the recommend-
9 ations that we are seeking here will not affect the
10 cost to the consumer at all.

11 COMMISSIONER WALLS: That is the point I
12 was trying to get at. If you were alleviated to the
13 extent of the advertising medium from excise tax your
14 industry would be quite content to continue to pay
15 excise tax on your matches.

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1 MR. LAWRASON: Oh yes, I still do not see
2 any reason to ask for total exemption unless lighters
3 are given the same treatment.

4 COMMISSIONER WALLS: Dealing with your con-
5 cern about lighters. Do you really think that the price
6 per light, the way you have worked it out, has any
7 bearing on a man who uses a lighter or matches. Does
8 he not buy lighters for other factors than cost-per
9 light such as an ornament, as a safety factor, that in
10 effect perhaps the increase in lighters is in relationship
11 to the increase in cigarette smoking over
12 the pipe smoking. In other words, the pipe smoker is
13 a match user predominantly.

14 As you have had an increase in cigarettes, so
15 also the increase in lighters has grown simultaneously
16 with that. I do not believe anybody thinks of the
17 relationship of cost per light as to whether he uses a
18 match or lighter.

19
20 THE CHAIRMAN: We are seeking to tax what
21 the consumer spends. We are not seeking to tax each
22 flame. Consumer spending is proportionate to the
23 amount a man spends and whether he has an expensive
24 light or cheap light is rather beside the point. I
25 do not see why we do not have it on lighter fluid.

26 COMMISSIONER WALLS: And flints.

27 THE CHAIRMAN: The excise.

28 MR. MAY: I suspect that the Department would
29 cease to tax. They were taxed for flints and fluids
30 because I expect the amount of revenue which was being



1 derived from them may be impractical to collect.

2 If I might answer your general question,
3 does how much a light costs in terms of lighter, if a
4 lighter or match I think the answer is no. The person
5 would use a lighter or match by other factor. This is
6 a means of raising revenue.

7 When a person, for whatever reason at all
8 changes from matches to lighters, revenue is lost. If
9 he stays with matches, it is purely a question of rev-
10 enue and is the use of proper basis on which to apply
11 the tax. I think this can be the only reason for the
12 tax, if they wanted taxes for this specific product.

13 Obviously it is related to the use of
14 which has been subject to excise taxes. If you say the
15 reason for taxing both products, either match or lighter,
16 you do not have as much revenue. The revenue is less
17 where the lighter is used rather than a match. This
18 is the sum and substance of the argument, of course.

19 THE CHAIRMAN: Really the point you make to
20 us is you prefer a specific tax, an ad valorem tax
21 for excise purposes.

22 That, perhaps, is not unreasonable. I would
23 have thought the best tax is that which is most closely
24 related to consumer spending, and I expect ad valorem
25 is most closely related to consumer spending, but I
26 am not sure.

27 MR. MAY: I think you are right with the
28 sole exception of the argument being mentioned as matches
29 go up in price the advertising content goes down.
30 Basically the match in all these samples is identical.



1 The difference that makes the \$6.00 and
2 \$680.00 per hundred is purely the advertising cost.

3 can
4 COMMISSIONER WALLS: You ~~remove~~ the advertis-
5 tax leave the tax
6 ing portion from excise/~~and~~/on ad valorem basis for
7 specific
8 matches or you change it to a ~~rate~~ tax and include the
9 advertising which is the basis of your argument here.

10 MR. MAY: Yes. The recommended specific
11 rate is simply to try to avoid the tax on the advertis-
12 ing feature.

13 THE CHAIRMAN: I think I understand that.
14 Is there anything more?

15 COMMISSIONER PERRY: I wonder if we could go
16 over the arithmetic on table 2.

17 MR. MAY: Page 7.

18 COMMISSIONER PERRY: Yes. Looking at the
19 excise tax column, as I read it the tax on paper matches
20 would be about double, more than double -- 2.5 per
21 thousand.

22 MR. MAY: Per thousand matches?

23 COMMISSIONER PERRY: You say there would be
24 a modest increase in revenue. Why wouldn't there be
25 about 100 per cent increase?

26 MR. MAY: With respect to these paper booklet
27 matches there would be 100 per cent revenue.

28 COMMISSIONER PERRY: This amount of
29 100 per cent in revenue is not a modest increase.

30 MR. MAY: It becomes only a fraction of a
 cent a booklet. The retailer would still be paying 19.7.

 COMMISSIONER PERRY: I can follow that. The
 excise tax itself is double.



1 MR. MAY: On this particular package of
2 matches.

3 COMMISSIONER PERRY: What you are saying is
4 the consumer won't realize that.

5 MR. MAY: He won't pay it. He still wants
6 it for 1 cent a book.

7 COMMISSIONER PERRY: This would be money
8 coming to the Government which is coming in into twice
9 as much money.

10 MR. MAY: On the other hand where you get
11 your \$187 matches, there is quite substantially ---

12 COMMISSIONER PERRY: Your average manufactur-
13 er's price, which I assume includes this \$187 matches
14 as well as \$6.

15 MR. MAY: These are matches sold at retail.
16 This should be made clear.

17 MR. LAWRASON: This is what we call stock
18 type of commodity.

19 COMMISSIONER PERRY: It is not typical of
20 your range of matches. It is simply the stock matches.

21 MR. LAWRASON: That is correct.

22 COMMISSIONER PERRY: How it demonstrates the
23 point we are trying to make -- I can see if the very
24 expensive matches are not included there is a substantial
25 offset.

26 THE CHAIRMAN: Is the offset more than the
27 gain?

28 MR. MAY: Table II is intended to show
29 the effect of specific rate on retail prices only. Nothing
30 else. To indicate what this change might be to the con-



1 sumer who has to buy matches.

2 THE CHAIRMAN: And this is what the impact on
3 the federal treasury is.

4 COMMISSIONER PERRY: Your comment, "the fore-
5 going Table II does indicate that the proposed change
6 should result in a modest increase in revenue --"
7 and therefore you are using it yourself for another pur-
8 pose.

9 MR. MAY: There is a table that shows what
10 you may expect.

11 COMMISSIONER PERRY: I think that is Table
12 II.

13 MR. MAY: That is not double revenue, that
14 is limited only to -- certainly we can supply you with a
15 table if it is not there.

16 THE CHAIRMAN: Do you happen to know now
17 the effect on revenue taxes?

18 MR. MAY: I have a table here which you
19 do not have. But it shows that for the period 1955 to
20 1962 inclusive, the tax collected on matches is equiv-
21 alent to 2.15 per thousand splints, and in total dollars
22 the amount of revenue collected at 10 per cent for that
23 period of years was \$5,216,000.216 thousand.

24 The tax at a specific 25 cents per thousand
25 splints for the same period would be \$6,009,350.
26 It is an increase of the difference of 2.15 thousand
27 splints and 2.5 thousand splints.

28 THE CHAIRMAN: Eight thousand dollars over
29 an eight-year period.

30 MR. MAY: For the year 1962 the 10 per cent,



1 the ad valorem, collected was \$689 thousand. Two and
2 one-half cents a thousand splints would have created
3 \$728,100.00.

4 THE CHAIRMAN: The improvement would be
5 \$39,000.00 for 1962.

6 MR. MAY: Yes. It will create more revenue.
7 The purpose of the recommendation is for the purpose of
8 trying to get rid of this specific excise tax on the
9 advertising value of matches which is becoming more im-
2 10 portant every day.

11 THE CHAIRMAN: So that the Eddy Co. is
12 prepared to absorb another \$40,000.00 a year. In order
13 to avoid the high impact of the ad valorem tax on the
14 more expensive matches, the manufacturer would absorb
15 this tax I would suppose.

16 MR. MAY: I doubt it. I think it is likely
17 to be added to the price. But, it will not reach the
18 consumer.

19 THE CHAIRMAN: The retailer will absorb it.

20 MR. LAWRASON: I might clarify this for you.
21 The average consumer paying 1 cent for one book of matches,
22 that product starts off at our factory without taxing
23 at approximately \$7.00.

24 The consumer is paying \$25.00 for it and
25 therefore you will have a markup range from \$7.00 to
26 \$25.00, which of course is a very substantial markup.
27 As a result, it would be our feeling that if there is a
28 tax adjustment which would actually increase the revenue
29 and that revenue should come out of the wholesaler
30 or retailer markup which is substantial, at this one



1 cent sale level that actually spread across the whole
2 volume of matches will be in this category, the small
3 difference in tax we are talking about is infinitesimal.

4 COMMISSIONER PERRY: It seems to be 10 per
5 cent.

6 MR. MAY: This, incidentally, has been true
7 for years, on every excise tax on matches whether it
8 went up or down, the paper book match still sold for 1
9 cent a book.

10 MR. LAWRASON: There is a trend overcoming
11 that. The chain stores are selling a packet of this
12 kind for 21 cents or 25 cents. Even so, with the tax
13 change we are recommending I do not believe they would
14 change their retail price at all.

15 COMMISSIONER WALLS: I bought two of these
16 for 37 cents in a chain store.

17 COMMISSIONER PERRY: Was this tax never on
18 a specific basis? I had a feeling it was not.

19 MR. LAWRASON: Up until 1949 it was on a
20 specific basis.

21 COMMISSIONER WALLS: Did the industry ask that
22 it be changed?

23 MR. LAWRASON: No. The Government changed
24 it.

25 MRS. MILNE: One question. I am thinking of
26 this little package that you buy in the chain stores and
27 grocery stores and a number of places for 19 cents, 20
28 cents, 21 cents. The average retail selling price is
29 50 cents. You cannot buy a volume of these. A company
30 and so many places, a restaurant you go in, and possibly



1 you need a package of cigarettes and they give you one.

2 I am wondering to what degree these 50 books
3 of matches get 50 cents to the retailer.

4 MR. LAWRASON: I can give you my estimation
5 of that. I would think that approximately 35 per cent
6 of the book matches sold or distributed. That is approx-
7 imately. That is an approximation. I would have to do
8 some arithmetic to figure that exactly. I think that is
9 reasonably accurate.

10 COMMISSIONER WALLS: I have one more question
11 and this is more for my information.

12 Why should somebody like the Eddy Company have
13 to import either the paper stock for matches or the
14 chemical?

15 MR. LAWRASON: There are many chemicals
16 used in the composition applied to the head of the match
17 which are only made outside of this country.

18 There are some types of paper board, I refer
19 to what we normally call flint board, which are made only
20 outside of this country.

21 I am pleased to say that after considerable
22 effort on behalf of our manufacturers we have paper
23 manufacturers in this country now endeavouring to make
24 it for us.

25 Indeed we have purchased some in recent
26 months on a trial basis to see if they can supply us.
27 It is a specially treated paper, as you understand.
28 It has impregnations in it.

29 Because of a policy we buy everything we
30 can in this country too.



1 COMMISSIONER WALLS: I might confess that
2 this is for my own information, is there heavy import-
3 ation of Italian wax matches. You make no attempt to
4 compete with them?

5 MR. LAWRASON: They are entirely a different
6 type of manufacture. It involves a considerable amount
7 of hand labour. It is an inferior type of product. As
8 a type of match, it is becoming less manufactured around
9 the world.

10 These paper matches, or wooden matches are
11 predominant.

12 THE CHAIRMAN: I do not think we have any
13 more questions. I understand what you put before us.
14 I can assure you we will continue to consider them.

15 Thank you.

16 MR. LAWRASON: Thank you for your consider-
17 ation.

18 MR. BENNETT: I have one brief to enter into
19 the record from the Canadian Arthritis and Rheumatism
20 Association.

21 I would like to enter this into the record
22 as Exhibit 266.

23 ---EXHIBIT NO. 266: Brief from the Canadian
24 Arthritis and Rheumatism
25 Association.

26 -----

27 ---Whereupon the hearing adjourned at 12:15 p.m.
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29
30

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT
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1
2 THE ROYAL COMMISSION ON TAXATION

3
4 Hearing held in the Centre Court
5 Room, Exchequer Court of Canada,
6 Supreme Court Building, Welling-
7 ton Street, Ottawa, on Wednesday,
8 the 27th day of November, 1963.
9
10

11 C O M M I S S I O N

12 MR. KENNETH LeM. CARTER -- Chairman

13 MR. J. HARVEY PERRY

14 MR. A. EMILE BEAUVAIS

15 MR. DONALD G. GRANT

16 MRS. S. M. MILNE

17 MR. CHARLES WALLS
18
19

20 LEGAL COUNSEL

21 MR. J. L. STEWART
22

23 RESEARCH DIRECTOR:

24 PROF. D. G. HARTLE
25
26

27 SECRETARY

28 MR. G. L. BENNETT
29
30 -----



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* * * * *



1 ---Upon commencing at 9:30 A.M.

2 THE CHAIRMAN: Mr. Secretary, it is now
3 9:30; I think we ought to start.

4 THE SECRETARY: Mr. Chairman, Commissioners,
5 this morning we have a brief from the Canadian Pulp and
6 Paper Association. Mr. R. M. Fowler, President of the
7 Association, is here this morning together with a number
8 of his colleagues. He will speak to the brief and
9 will introduce the gentlemen with him at the table.

10 Mr. Chairman, I would like to enter this
11 brief into the record as Exhibit 267.

12
13 ---EXHIBIT NO. 267: Brief submitted by the
14 Canadian Pulp and Paper
15 Association.

16 SUBMISSION OF
17 THE CANADIAN PULP AND PAPER ASSOCIATION

18 Appearances:

19 MR. R. M. FOWLER, President

20 MR. W. N. HALL

21 MR. E. RANKIN

22 MR. P. R. MARCHANT

23 MR. R. W. WILSON

24 MR. G. C. GIBB

25 MR. W. E. HAVILAND

26 THE CHAIRMAN: Thank you, Mr. Secretary.

27 Good morning, Mr. Fowler, gentlemen.

28 MR. FOWLER: Good morning.

29 THE CHAIRMAN: Before starting, I would be
30 grateful if you would introduce your associates to us.



1 For my part I introduce to you the members of the
2 Commission whose names are all before us here.

3 We would like to hear about your association
4 which you refer to very briefly in your submission.
5 We would like to know a little more about it and any-
6 thing you care to tell us about the method and prep-
7 aration of your submission.

8 MR. FOWLER: Yes. Mr. Chairman, Madam and
9 Gentlemen, first of all to introduce my colleagues and
10 also perhaps at the same time to explain how we went
11 about preparing this brief, we had a sub-committee
12 of our executive board. Mr. W. H. Hall, the President
13 of the Dominion Tar & Chemical Company Limited, was one
14 member of that committee and I am glad to say he is
15 here to-day. Mr. Hall is on my extreme left.

16 We then also had a sort of special working sub-
17 committee. I do not mean the first committee did not
18 work also, but this did the detailed work. This consis-
19 ted of Mr. Rankin, who is on my right, who was President
20 of that sub-committee. He is an officer from Anglo-
21 Canadian Pulp and Paper Mills Limited.

22 Then, on his right is Mr. R. W. Wilson and
23 Mr. G. C. Gibb, both from the Canadian International
24 Paper Company.

25 At the end of the table is Mr. P. R. Marchant
26 from the Dominion Tar & Chemical Company.

27 I hope, by the way, Mr. Chairman, that you
28 will allow my colleagues to intervene at various points
29 to explain some points and more particularly to correct
30 me when I go wrong -- which I am very apt to do.



1 THE CHAIRMAN: Indeed, I certainly hope they
2 will. It would be unfair to expect you to know all the
3 answers.

4 MR. FOWLER: Certainly their knowledge of
5 these taxation problems is considerably greater than
6 mine.

7 This sub-committee prepared various sugges-
8 tions and drafts which were based on questionnaires
9 and discussions with various members of the association.
10 These were considered by the sub-committee of the
11 executive board of the association of which Mr. Hall
12 is a member -- of that committee. Then we took the
13 final draft of the brief to the executive board and
14 obtained further suggestions before it was put into final
15 form and put in your hands, I think on the 15th of
16 October.

17 You ask a word about the association. I
18 think we have almost completely in our membership all
19 producers of pulp and paper in Canada. I think there
20 may be one or two companies that are not members, but
21 substantially we have in our membership all the producers
22 of pulp and paper in Canada.

23 The association, without taking too long
24 about it, has a variety of activities. We operate two
25 very large professional associations of technical men
26 in mills and woodmen's operations in the woods. We
27 have quite a heavy participation in research activity
28 in partnership with the Federal Government and with
29 McGill University.

30 We are involved in various matters such as



1 this one here on behalf of the industry, where some
2 expression of opinion is required to a public body such
3 as a Royal Commission or indeed with governments gen-
4 erally.

5 We have some public information services
6 about the industry and we have a very large statistical
7 activity as to what is going on in the pulp and paper
8 world, not only in Canada but throughout the world.

9 The structure of our organization involves
10 an executive board of 30-odd members which substantially
11 makes up the presidents or chief executive officers
12 of nearly all the major companies of Canada.

13 Is that enough on the association?

14 THE CHAIRMAN: Thank you very much.

15 MR. FOWLER: As far as the brief is concerned,
16 it has been filed as Exhibit 267. I do not propose
17 to read it, but would like to try to get to the major
18 points on it. However, I have to say that knowing the
19 volume of reading matter this Commission is likely to
20 have, we deliberately tried to condense what we had
21 to say, and now I am starting to try to summarize an
22 already existing summary.

23 I suspect the notes I have made for that
24 purpose are slightly longer than the original brief.
25 Excuse me.

26 In preparing this brief we have not tried
27 to cover all aspects of taxation in Canada or indeed
28 perhaps all matters which fall within your terms of
29 reference. We felt for an organization which is general
30 across Canada, with membership in practically all provinces,



1 that we had better concentrate on a few points and
2 we are mainly dealing with certain aspects of corporate
3 taxation.

4 In that connection I want to say we are
5 grateful to your staff for sending us on November 8th
6 a list of questions, a fairly lengthy one, mainly relating
7 to the tax treatment of forestry operations. These came
8 in shortly after November 8th and frankly we just have
9 not had time as they are pretty technical, to get
10 the answers from the scattered membership or even from
11 the committees we have set up to do this kind of thing.

12 If we have your permission I would rather
13 put in subsequently a memorandum attempting to answer
14 such of these questions as we feel we can answer.

15 In any event I think you will find that the
16 answers to these technical questions in writing will
17 probably be a little clearer than any we might attempt
18 to do to-day.

19 THE CHAIRMAN: We would be very grateful
20 if you would take your time over those questions and
21 answer them at your convenience. I do not think it
22 would be at all fair to expect you to reply to them
23 at this time.

24 MR. FOWLER: Thank you, Mr. Chairman. The
25 simple fact is that we are not ready to answer on behalf
26 of the organization we represent in the time we have
27 had available, and anyway I think it will be better to
28 submit them in writing.

29 I did say a moment ago, I think, that the
30 pulp and paper industry was Canada's largest single in-



1 dustry and therefore it is not surprising that it is
2 substantial both in volume of production and in volume
3 of taxes paid. The total production value is of the
4 order of one billion six hundred million dollars per
5 year. Of that about two-thirds is exported, which puts
6 it at something over a billion dollars of exports.

7 That fact of the heavy participation in
8 exports is of basic importance, I think, to our sub-
9 mission. This export trade we calculate is something in
10 the order of 20 per cent of total Canadian commodity
11 exports and something over 30 per cent of commodity ex-
12 ports to the United States. We think it is of primary
13 importance that this and other such industries should
14 be competitive in world trade and competitive power is
15 undoubtedly affected greatly by the level and the weight
16 of taxation.

17 On the basis of the survey we made, using
18 1961 as a yardstick, our members paid about \$120 million
19 in federal corporation taxes or about 9 per cent of the
20 total. They also paid included in this figure \$220
21 million in 1961 to all levels of Government in Canada,
22 or about $4\frac{1}{2}$ per cent of total paid by corporations.

23 That figure, of course, does not go beyond
24 the fairly direct taxes paid by this industry. It does
25 not include either the personal income tax of the
26 employees of the industry, nor does it include the tax
27 revenues that are generated by the fact that you have a
28 pulp and paper production in Canada.

29 The brief, as I said, deals mainly with
30 corporation taxes and their effect on company operations.



1 I think we very wisely decided not to discuss the dis-
2 tribution of corporation taxes between various levels
3 of Government.

4 It is our conviction that the level of tax-
5 ation, especially the level of corporation taxes, is a
6 major factor in determining the level of economic
7 activity and the rate of economic growth. If the
8 corporate tax level is too high the economic growth
9 will be slowed. If it can be reduced, growth will be
10 stimulated.

11 At the same time we know (in the words of
12 your terms of reference) that a sufficient flow of re-
13 venue must be maintained to discharge the necessary and
14 desirable costs of Government and Government services.

15 So in considering the Canadian tax structure
16 and possible changes in it there has to be a balance
17 struck between the maintenance of the sufficient flow
18 of revenue and any tax reductions designed to stimulate
19 economic activity. If it seems desirable to reduce
20 certain taxes to increase the rate of growth, the drop
21 in revenue must either be met by new revenues or by re-
22 duced expenditures or by accepting for a time a deficit
23 in the national accounts.

24 We attempt to deal with some of these prob-
25 lems in our brief.

26 We have a number of inter-related proposals,
27 as you will see. I will try to summarize those. I would
28 like to say that each of them individually and taken
29 together have one common characteristic. They are all
30 individually and collectively expansionary, aimed at the



1 use of taxes and tax policy to stimulate the economy and
2 to develop a more rapid rate of economic growth in
3 Canada.

4 The points in the brief can be grouped under
5 a number of headings, and I will list those as a sort
6 of general summary of the brief. Then, if I may come
7 back and make some comments on each one of the headings,
8 I will.

9 The first main heading deals with corporation
10 tax proposals. We suggest (a) a reduction of the cor-
11 poration tax rate to 40 per cent on corporate profits.
12 (b) An equalization tax (at least that is our name for
13 it) on dividends paid to non-residents in countries having
14 higher corporation tax rates. (c) That the corporation
15 tax should be treated as a deduction at source on personal
16 income derived from dividends. And (d) The discontinuance
17 of the preferred rate of 21 per cent on the first
18 \$35,000.00 of corporate income.

19 That is the first main block of suggestions.

20 The second heading is for the elimination
21 of the withholding tax on dividends to foreign investors
22 as being discriminatory and a barrier to the necessary
23 free flow of capital in both directions. I will amplify
24 that point when I come to it, if I may.

25 The third main heading is that we suggest
26 an increase in the allowed rates on capital cost allow-
27 ances as a stimulus to investment and growth at this
28 time.

29 The fourth section is that, having made these
30 specific proposals for changes, we tried to estimate their



1 effect on federal tax revenues and suggest what might
2 be done and what needs to be done about the result that
3 comes out of these calculations. It is an immediate
4 net loss in revenue that would result from the suggested
5 changes.

6 Briefly on this point we think that if the
7 changes reduce the expansion and growth that we believe
8 they will, much or all of the current loss in Government
9 revenue will be automatically and quickly made up.

10 The fifth point is to say that if, however,
11 this is not the result -- we do not wish to be confident
12 that it will be the result -- and new taxes must be
13 found to fill the gap, we do make some suggestions for
14 future emphasis on tax policy. These are for an expan-
15 sion of the base and perhaps of the rate of the general
16 sales tax using the "value-added" principle to avoid
17 cascading or pyramiding of the sales tax.

18 In that connection, Mr. Chairman, I would
19 like to add verbally to the brief some specific comments
20 on the sales tax on construction materials, machinery
21 and apparatus.

22 Finally the sixth heading deals with a some-
23 what more minor point which falls within your reference
24 (c) about anomalies. This is one we think is important,
25 although relatively it is a smaller point. This one
26 suggests that the cost of investigating new products
27 should be allowed as an expense, whether or not the
28 project investigated develops as a result of this study.

29 Those are the six main headings I would like
30 to deal with, if I may.



1 The first one is the suggestion of reducing
2 the present corporation taxes to a rate of 40 per cent
3 on profits.

4 With Canada as involved as we are and depend-
5 ent on international trade, and being so close to the
6 American economy and very much inter-dependent with it,
7 we do not think the Canadian corporation taxes should
8 be higher than any other major industrial countries,
9 especially the United States. There are strong arguments
10 for Canada's rate being substantially lower.

11 Under the new American tax proposals, the
12 United States would have a rate of 48 per cent. We
13 believe that Canada will be forced at least to move down
14 the rate of corporation taxes from 52 per cent fairly
15 quickly if that event takes place. We do suggest that
16 Canada should go further in this process. If they have
17 to move at all, they might as well make a good sized
18 move and go to 40 per cent as a deliberate step to stim-
19 ulate the economy and the rate of economic growth.

20 We think that such a step would increase the
21 number of investment projects which would fall within
22 an acceptable rate of return. Its initial effect would
23 be to increase funds available to companies for use in
24 investment. But the use in any instance would vary.
25 It is very difficult to predict in any particular case
26 how the proceeds of a tax reduction will be distributed.
27 It will vary from product to product and from time to
28 time.

29 While initially a tax reduction puts more
30 money into the corporation's hands, its later use will



1 be one of a number of things -- either for increased
2 investment in the business, for larger dividends to
3 share-holders, to increase wages and salaries of employees,
4 or to reduce prices to customers.

5 Those are listed in no particular order of
6 priority. Probably it will go in all or several of
7 these ways. But the important point is that each and
8 every one of those choices for the distribution of the
9 proceeds of a tax cut is expansionary in its effect
10 on the economy.

11 Mr. Chairman, we say, as the second sub-head-
12 ing under this corporation tax heading, if we do go to
13 40 per cent while the American and other major countries'
14 rates are higher, there will need to be a new equalization
15 tax on dividends paid to non-residents in countries
16 with a higher rate.

17 The reason for this is that most countries
18 tax dividends from foreign investments at the full dom-
19 estic rate, with a credit for tax paid in Canada -- not
20 elsewhere, but in Canada -- up to the limit of the
21 domestic rate. So a lower Canadian rate would not benefit
22 the foreign shareholder but would provide some kind of
23 windfall benefit to the foreign treasury.

24 To prevent that Canada, we suggest, should
25 impose an equalization tax at a rate such that when com-
26 bined with the Canadian corporation tax, the total tax
27 would be equal to that in force in the recipient country.
28 That would not be unfair to the foreign shareholder,
29 who would be in exactly the same position as if he had
30 invested in his own country, but no worse position. To



1 the extent that corporate earnings were retained in
2 Canada the foreign shareholder in Canada would benefit
3 in the same way as the Canadian shareholder.

4 The third sub-heading is -- and this is
5 an integral part of the plan - that the corporation tax
6 should be treated as a deduction at source on personal
7 income derived from dividends. The preface of the pro-
8 posal is to eliminate the present discrimination against
9 the investor in Canadian stocks compared to the investor
10 in bonds and other forms of securities.

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1 It would make equity investment in Canada
2 more attractive to Canadian investors. It would thus
3 be a strong encouragement of Canadian ownership of common
4 shares in Canadian companies which I think is a very wide
5 objective in this country.

6 The fourth is that with a lower rate of 40
7 per cent and treating the corporation tax as a deduction
8 at source on personal income derived from dividends
9 there would be no need to continue the present preferred
10 rate of 21 per cent on the first \$35,000.00 of taxable
11 income.

12 It is very hard to make any general con-
13 clusions as to the effect on the tax burden of share-
14 holders in the smaller corporations with incomes around
15 \$35,000.00. We think that the combined effect of the
16 recommendation on such shareholders would not be sub-
17 stantial. It does depend on the particular instance, on
18 the personal tax rate of the shareholders and on the
19 rate of dividend pay-out of the company which may be in
20 existence or may be decided on.

21 In cases where the 40 per cent corporate
22 rate exceeds the shareholder's personal tax rate, he
23 would be entitled to a refund. In any case the present
24 21 per cent provision seems to have led to some tax
25 abuses and surplus stripping by companies around the
26 \$35,000.00 level of earnings.

27 With the growth in the optimum level of
28 business enterprises, this \$35,000.00 figure seems crude-
29 ly artificial.

30 We think, finally, that the proposal to



1 treat corporation taxes as a deduction at source on
2 personal income would be very difficult to apply admin-
3 istratively if every company with profits over \$35,000.00
4 had a different effective tax rate as they have at
5 present.

6 That is our brief summary of the comments on
7 corporation tax we put forward.

8 The second heading is in relation to with-
9 holding tax on dividends paid to non-residends. We urge,
10 as strongly as we can, that this tax be eliminated as
11 being discriminatory and is imposing a barrier to free
12 flow of capital which is essential to the development of
13 Canada and in particular to the continued growth of the
14 pulp and paper industry.

15 I want to make it specific, to have a free
16 flow of capital in both directions. For an industry such
17 as pulp and paper where units are large and expensive
18 and is a capital intensive industry, I think we are going
19 to need and we think we are going to need an inflow of
20 capital for major new projects which will develop the
21 use of Canadian resources sooner and more effectively than
22 they otherwise will be developed, and provide increased
23 local trade and employment.

24 I do not think there is any doubt at all that
25 the Canadian pulp and paper industry would be a much
26 smaller industry to-day than if capital had not been
27 free to move in to build it. This capital is coming
28 not only from the United States, but from Great Britain
29 and Sweden and Germany and perhaps tomorrow from Japan,
30 we do not know.



1 The reason for this is that throughout the
2 world, particularly in places like Western Europe and
3 in Japan, there is a rapid steady advance in demand for
4 pulp and paper which is coming very quick to outstrip
5 local fibre sources.

6 In these countries all the statistics and
7 all the studies show that serious wood shortages are
8 either in existence to-day or are just around the corner.
9 Canada has the wood resources for a substantial expansion
10 of pulp and paper production to supply increasing world
11 demands. But, we are not the only country to which others
12 may turn for needed supplies of pulp and paper. If we
13 continue the obstacle of the present withholding tax to
14 foreign investment, which incidentally does two things.
15 It may provide a foreign company engaged in pulp and
16 paper production which comes to Canada to participate or
17 build a producing unit.

18 It may provide that company or that country
19 with insured supply from Canada. It would also provide
20 Canada with an insured market for that product.

21 If we continue this obstacle, the present
22 withholding tax to foreign investment, and it is an
23 obstacle I am convinced and everybody who looks at it
24 is convinced, that search will go elsewhere and there
25 are other places for them to go and we will not have as
26 rapid growth of this industry or the benefits of local
27 trade and employment of such growth.

28 There are other more minor aspects to this.
29 We think the withholding tax as it is now tends to keep
30 imports at a higher level than they need be and we are



1 all anxious to get a better balance between imports and
2 exports. When Canadian demand for an imported product
3 grows to a point that a foreign producer would be just-
4 ified in building a Canadian plant, the obstacle of
5 the withholding tax may discourage him from doing so.

6 So, imports will continue at a higher rate
7 than need be, and we lose the advantage of increased
8 trade and employment that would come from the new man-
9 ufacturing facilities in Canada.

10 The other side of the coin of free movement
11 in both directions, and I think and we think, is likely
12 to become more important in the future. We think we
13 need to have free export of capital by Canadian companies.
14 This may be an odd statement to make where you are in
15 a country which is an importer of capital up to now.

16 Certainly in this industry and perhaps in
17 others substantial increase in export volume requires
18 the acquisition of outlets for the product by process
19 of vertical integration. This is not merely a problem
20 of getting tariff barriers reduced on fine papers,
21 paperboards and packaging materials into, say, the
22 United States.

23 For a Canadian producer to take advantage
24 of that kind of better access into the United States
25 knowing the nature of this market, it is almost essential
26 that he go down and acquire outlets. This means an
27 export of capital.

28 The present withholding tax, and we think
29 it discriminatory, invites retaliation from other count-
30 ries. You think it is almost inevitable. And it does



1 create an obstacle even if one may not exist precisely
2 to-day, against this necessary capital coming in from
3 largely unrecognized export of capital that we think is
4 to be required for the proper development of this country.

5 We submit that the efforts should be to re-
6 duce our own obstacles to free movement of capital into
7 Canada and get other countries to do likewise and permit
8 a free movement of Canadian capital to them.

9 I personally for the life of me cannot under-
10 stand why the free world is so afraid of freedom.

11 The brief does touch rather briefly on the
12 current fear that foreign controlled companies in Canada
13 may adopt management policies that are not in the
14 best interests of Canada. We think that the problem has
15 been badly distorted in public discussion, and that the
16 approach to dealing with it by placing obstacles against
17 foreign investment in Canada is the wrong approach.

18 I think we should try to analyse clearly
19 what corporate policies are against the public interest
20 and what kind of performance we really want from
21 companies, and if necessary take whatever appropriate
22 action is needed to correct the policies we do not like.

23 I am reasonably convinced that if it is
24 performance that we are concerned about, it is unlikely
25 that we will correct it by legislation directed against
26 ownership. I think any one of us in our personal ex-
27 perience could point to differences in performance that
28 have no relationship whatsoever to ownership.

29 We think it is grossly unfair to impose
30 penalties on investment that has come to this country



1 under a set of rules and assured equal treatment of it.
2 I do not suggest for a moment that the rules cannot
3 be changed. But, I do suggest that the rules of corporate
4 behaviour should be a general application applicable
5 to all Canadian companies, domestic and foreign, and
6 if that is done the foreign company that has come to
7 Canada has nothing to complain about as long as he is
8 treated equally with other Canadian companies.

9 If, on future developments, we want to have
10 increased Canadian participation we should do so not
11 by imposing penalties against foreign investment but
12 by encouraging Canadian investors to acquire equity
13 capital in Canadian industries.

14 We think that the package of proposals that
15 we have put forth in our brief would do just that and
16 would increase the interest of Canadian investors in
17 Canadian companies. And, at the same time not discourage
18 the continued flow of investment capital into Canada
19 which we are going to need if we are going to have a
20 satisfactory rate of growth.

21 The third of my headings deals with capital
22 cost allowance. We suggest in the brief an increase in
23 the present rates of capital cost allowance as a stimulus
24 to increased activity and growth.

25 It may be that the present scale is generally
26 in line with the useful life of the assets being de-
27 preciated, at present economic growth rates. But if we
28 succeed in getting more rapid growth, obsolescence will
29 and should be more rapid. If we need to stimulate mod-
30 ernization and new investment, we could do so and it



1 would be a contribution to faster growth.

2 This principle has been partially recognized
3 in the last federal budget, but those provisions are
4 limited. They do not cover many items of capital ex-
5 penditure and are limited to a two-year period which may
6 be too short for a large paper mill, and are discrim-
7 inatory. We think the principle of stimulating growth
8 by the use of increased capital cost allowances should
9 be expanded and made more general, and we think this
10 is a very useful and flexible device for influencing
11 the rate of economic activity.

12 There may be action where slower growth is
13 desirable because of full employment of resources and
14 the danger of inflation and the depreciation allowances
15 can be cut down. To-day when there is substantial
16 unemployment and unutilization resources it is desirable
17 to stimulate growth and a more generous capital cost
18 allowance would contribute to more rapid growth.

19 We do not suggest in this section a rate
20 because by the time your recommendations are made the
21 conditions may be different than they are to-day. What
22 we are really asking for is flexible use of this de-
23 preciation as a means of stimulating or if need be
24 slowing down. It could come.

25 The fourth heading is the estimated effect
26 on Government revenues of the proposed tax changes. We
27 use 1962 national accounts as a basis and we have tried
28 to make these estimates, and the results of the various
29 changes are given throughout the text and brought to-
30 gether in the Appendix. If you care to turn to that



1 appendix.

2 The reduction in the corporation tax rate
3 of 40 per cent would on this calculation be \$330 million
4 down in federal revenues.

5 The increase from 21 per cent to 40 per cent
6 of the rate on profits less than \$35,000.00 would be an
7 increase in Government revenue or recapture of ninety-
8 one million.

9 The equalization tax on dividends to non-
10 residents is 127 million according to this calculation.

11 That, Mr. Chairman, may be overstated be-
12 cause it does involve the 52 per cent in the United States
13 as against the Canadian rate. Under this equalization
14 thing, the amount we recapture from the United States
15 would be less. You have to pick something to put in and
16 we chose the conditions that exist in the year we are
17 talking about.

18 Item four is a withholding tax. We estimate
19 a loss of Government revenue of \$75 million there, and
20 on treating the corporation tax as deduction at
21 source on personal income, there would be a loss of
22 \$358 million. Assumed recovery of dividend tax credit
23 through personal income tax, we estimate at \$179 million.

24 I should say, Mr. Chairman, that the last
25 figure is probably the estimate in the list that we
26 are least happy about.

27 It is obviously very difficult to determine
28 what the tax bracket is of the personal shareholders that
29 are involved who are paying higher taxes. It is
30 difficult to know what the future dividend pay-out rates



1 will be so, we have taken the 50 per cent rate. I may
2 say it is not a reach in the air for a rate. There were
3 quite extensive studies done.

4 Comparing the situation in England and ex-
5 amining also the distribution of dividends to the national
6 accounts as they are available, we think 50 per cent
7 is a reasonable shot at it, but there is a larger
8 margin of error than some of the estimates we have.

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1 Well, the net result is a minimum loss in
2 federal revenues, using 1962 figures as a yardstick,
3 of \$366 million. That is for sure a substantial amount,
4 especially when one has in mind existing deficits in
5 federal accounts, and your instructions to make recomm-
6 endations consistent with the maintenance of a sufficient
7 flow of revenue. So we have to consider what might be
8 done and what needs to be done about it.

9 Very briefly, we think that if the suggested
10 tax changes produce the economic expansion and growth
11 we believe they will, much or all of that apparent loss
12 of revenue will be automatically and quickly made up.

13 In this field of statistical knowledge it
14 does not make it possible to make a precise calculation
15 of the extent to which a tax reduction, translated into
16 increased investment and then into consumer spending
17 and back again, will act and react in the economy to pro-
18 duce a much larger G.N.P., and thereby expand the tax
19 base and yield higher tax revenues.

20 Only by way of illustration and as a sort
21 of first shot in this matter, very much over-simplified,
22 we have in paragraphs 39, 41 and 42 of the brief attempt-
23 ed to estimate how much improvement in the G.N.P. would
24 be needed to make up the \$366 million. The calculations
25 indicate an increase of slightly over \$2 billion or 5 per
26 cent in the G.N.P. would yield at the proposed tax
27 rates an extra \$360 million to \$370 million in federal
28 revenue. We think it is reasonable to expect that the
29 combined effect of the tax reduction could produce
30 the 5 per cent increase in G.N.P.



1 It would, of course, also, as we mention
2 in the brief in paragraph 43, lead to a reduction in
3 unemployment, which is a most essential national object-
4 ive in human terms quite apart from economic terms.

5 While we have unemployment at anything like
6 the present levels we have we are going to have deficits
7 in the national accounts unless we are prepared to adopt
8 very restrictive fiscal policies, which would only
9 slow the economic growth and increase the unemployment.
10 No one likes deficits. They only add to the national
11 debt.

12 But the fact is that Canada's present debt
13 burden is not alarming. The net per capita debt in
14 1962 was below what it was in 1953, 1954 and 1955 and
15 only slightly above what it was in the later years.
16 We believe that not being faced with an alarming sit-
17 uation as far as debt burden is concerned, the problem
18 of deficits could be cured by policies to restore full
19 employment, which with reasonable control over new expen-
20 ditures, should produce at least a balanced budget.

21 We have tried for several years with rather
22 limited success as a country to deal with higher un-
23 employment by a number of more traditional methods --
24 public works, winter works, monetary policies and so
25 on. We think that the use of substantial tax reductions
26 to stimulate growth and to increase economic activity
27 has a better chance of dealing with unemployment which
28 seems to be becoming chronic.

29 I would like to say the fact that we cannot
30 be precise in our calculation in this area as to the



1 probable results does not invalidate the argument for
2 them. If the tendency of the tax changes is clearly to
3 increase the rate of economic growth, the growth will
4 be there, and will be substantial, even if we cannot
5 measure it in advance exactly.

6 I would like to say also, Mr. Chairman, that
7 we have great hope for the work that the research staff
8 of this Commission will be doing in this field. We think
9 that your staff should be able to produce better answers
10 to these very complicated matters than any one private
11 organization to-day. We hope they will undertake this
12 kind of study and will look forward to seeing the results,
13 if we may.

14 The fifth heading in my summary was in effect,
15 well, suppose the gap looks too big. Suppose this is
16 done and we do not really believe that it is going to
17 generate the kind of revenue that will make it up fairly
18 quickly. What should we do then? What should be the
19 particular emphasis on tax policy in the future?

20 We are, I must say, very reluctant to see an
21 increase in the tax burden, not just because of the
22 general undesire of people to pay taxes, but because of
23 this particular point. World markets are in a very
24 competitive state and any increase in basic costs is
25 something we would like to see avoided. But if it is
26 felt that new taxes must be found to help fill the gap,
27 we suggest an expansion of the base. Perhaps an increase
28 in the general sales tax is the best way to do it.

29 In widening the base we urge that the value-
30 added principle should be used to avoid pyramiding or



1 cascading of the tax. That principle was in effect
2 applied prior to June of 1963. The application of tax
3 on tax was avoided by a sales tax licence system. Whether
4 this is precisely the value-added principle or not, it
5 is pretty close to it in its result.

6 We think that the new tax on construction
7 materials, machinery and apparatus was an abandonment
8 of the previous practice to avoid pyramiding of the tax.

9 Incidentally, Mr. Chairman, I am on an
10 interjected point here which is not in the brief. I
11 think I made that clear before. During last summer's
12 budget debate the new tax on construction materials was
13 treated as being the removal of an exemption, which of
14 course in form it was. But, in removing an existing ex-
15 emption, it seemed to be inferred that it had somehow
16 been an inequitable or unjustified exemption, which,
17 in the search for increased revenues, it would be wise
18 to remove.

19 So the argument goes that if we are going
20 to need more taxes we should no longer exempt from sales
21 tax these construction materials when a lot of other
22 materials and commodities are subject to the general
23 sales tax.

24 We contend that the previous exemption was
25 no such unwise or inequitable exemption, but that it was
26 a wise one based on sound principles of taxation. There
27 is no way to avoid pyramiding of a sales tax on con-
28 struction materials, machinery and apparatus. There is
29 no system of licences that will avoid that result.

30 These sales taxes on construction materials



1 do increase the cost of productive plant and equipment
2 and those increases in cost have to go into the ultimate
3 price of the product sold but when the sales tax is
4 imposed on the products, later on there is no way of
5 identifying this piece of tax on the construction material
6 and machinery, but the tax is there in the price and
7 it is a tax on a tax. It runs down the whole line
8 and weakens the competitive position of industry by
9 increasing costs to Canadian consumers and weakening
10 the competitive power of Canadian exporters in world
11 markets.

12 This added cost of plant and equipment
13 weighs on all products -- those that are exported as
14 well as those sold at home. It is a hidden tax. It
15 cannot be identified at the time the product is sold
16 and thus cannot qualify under any system of manufacturers'
17 licences or export drawbacks.

18 We find it very difficult to see how a
19 drawback system could operate on this tax to avoid the
20 weakening of the competitive position of Canadian exports.
21 It does not certainly seem to be provided under the
22 present rules in Section 275 of the Customs Act which
23 allows only duty drawback on the exports of Canadian
24 materials "used in, wrought into or attached to goods
25 exported."

26 It seems to be our declared policy in this
27 country to expand export trade to help the old balance
28 of payments problems and perhaps to help unemployment
29 as well. When a product is exported as a product it
30 does not incur a sales tax, and thus the general sales



1 tax on manufactured goods does not seriously interfere
2 with our competitive position in the export markets.
3 But the sales tax on construction materials and machinery
4 does apply to exports and weakens our position.

5 We submit that this is a retrograde step
6 contrary to sound principles and seriously damaging to
7 our international trading position.

8 It has another serious effect -- less immed-
9 iate but in the long run perhaps equally important.

10 An increase in the costs of capital equipment and prod-
11 uction facilities of 11 per cent will tend to discourage
12 Canadian companies taking advantage of new technology
13 in existing plants and from building new plants. At
14 11 per cent you will keep the old shop running a little
15 longer. You will not move into the new technology
16 as fast or maybe not at all.

17 In this way it is a break on expansion.
18 It does not encourage growth, but it blocks it or impedes
19 it.

20 I guess I have said enough to suggest that
21 we think that this tax on building materials, machinery
22 and apparatus is thoroughly unwise, wrong in principle,
23 and should be immediately repealed. We do not want to
24 see higher taxes now because of these competitive factors
25 in the world and the existence of unemployment. But
26 if something has to be done we would much prefer the
27 extension of the sales tax to services or even an in-
28 crease in the present rate applied only once to the
29 value of the manufactured goods.

30 My sixth and final point is somewhat of an



1 anti climax, I think, Mr. Chairman, but your terms of
2 reference in item (c) do ask you to report on anomalies
3 or inequities in the existing tax laws. We have one such
4 anomaly to bring before you. It concerns the treatment
5 of expenses in investigating new investment products.

6 To-day these expenses are required to be
7 capitalized and written off over the life of the new
8 asset. Thus, if a project is not proceeded with, no
9 tax allowance is given for the abortive investigation.

10 We think the investigation of new projects
11 is part of the normal operation of a vigorous company.
12 If we are to have more rapid economic growth we ought
13 to encourage enterprise and vigorous investigation of
14 new products by Canadian industry. By the nature of
15 things all new ideas are not going to be good ones, but
16 you cannot know unless you have looked and this looking
17 can cause considerable expense.

18 We think these should be allowed as a legit-
19 imate expense of business. We do not think there is
20 any real danger of the man running wild and investigating
21 hopeless and impractical ideas, but we do not think he
22 should be, as he is now by the tax law, more or less
23 compelled to choose for investigation only those possible
24 new projects that look at though they have a pretty
25 high chance of success.

26 We do not think the amount of this type of
27 expenditure is very large, but we are going to need more
28 of it and the tax laws ought to be directed to the
29 way in which we will have more in order to have more
30 rapid and healthier growth. So we suggest that the



1 expenses of investigating new projects should be allowed
2 as a charge against income in the year incurred.

3 Mr. Chairman, that is a summary of the brief.
4 One of us or I will try to answer questions, if you
5 have them.

6 THE CHAIRMAN: Thank you very much indeed.
7 Your submission is most persuasive. We have read the
8 written document and we will certainly have a number
9 of questions to put to you.

10 We usually do not break quite as early as
11 this, but it would seem to me that it might not be a
12 bad idea if we break now and come back for questions.

13 Before we do, I think I might say that we,
14 of course, are most conscious about the significance in
15 the area of exports. Everybody well knows your industry
16 are tremendous exporters, as you pointed out. They rep-
17 resent a very large proportion of this country's export
18 business. We have heard from the Canadian Export Assoc-
19 iation, who have said some of the same things to us
20 that you have said, and I was wondering what your relation-
21 ship might be to the Canadian Export Association.

22 Stand or not, as you please.

23 MR. FOWLER: Well, Mr. Chairman, it is so
24 much a habit of mine to stand.

25 As regards the Canadian Exporters, there is
26 no formal relationship between us. I know Mr. MacAvity
27 very well and I see him quite frequently. At times
28 we talk about common problems together.

29 I think in addition to that there are a
30 number of members of his board of governors or directors,



1 whatever the name is, who are heads or leading officers
2 of pulp and paper companies who may very well be on our
3 board as well. So we may have inter-locking directorates
4 but not any relationship with the Exporters Association,
5 as such.

6 THE CHAIRMAN: Thank you very much.

7 We will recess for about ten minutes.

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9 ---Short Recess.

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1 THE CHAIRMAN: Mr. Fowler, you have set
2 before us six, I think, major points and some other ones.
3 I do not suppose it is fair to assume that you are in
4 agreement with all other matters of Canadian taxes other
5 than what you have referred to.

6 The only thing we up here can do is to relate
7 what you have put before us to what conditions are in
8 Canada now. So that if we do say that this rate of
9 corporation tax relates to such and such, and you do not
10 agree with that, you better say so.

11 You start out by indicating that a major
12 reduction in corporation tax would be a substantial stim-
13 ulant to economic growth. You suggest it should be
14 considerably below that of the major industrialized
15 countries, particularly the U.S.A. and the U.S. investors
16 in Canada by virtue of our Canadian tax and withholding
17 tax and our equalization tax would pay finally higher
18 taxes in both countries, which is the general scheme
19 of taxation.

20 MR. FOWLER: Yes.

21 THE CHAIRMAN: The advantage of U.S. invest-
22 ors on the low rate of taxes is accumulation, the
23 difference between two rates, and I wonder whether the
24 country should give up this much revenue in order to
25 encourage foreign investors to accumulate within
26 Canada, the difference between the two rates. It is
27 a good thing to do but adds substantial cost because it
28 has not got the advantage of both accumulation and of a
29 lower ultimate tax. Eventually tax paid by U.S. invest-
30 ors would be his rate of tax, not ours.



1 Therefore, you lose that advantage. You
2 suggest a low rate only for the one advantage, not the
3 two.

4 MR. FOWLER: I think, Mr. Chairman, this is
5 a question of balancing advantages and disadvantages.
6 What you are saying is, while this proposal would not
7 come to foreign investors, a minimum tax advantage, be-
8 cause he would be paying at the rate of his own domestic
9 corporation tax that the effect of the lower Canadian
10 rate would be perhaps to accumulate in Canada and
11 provide for him at some future time or even as it goes
12 along as an increasing asset.

13 This, I think, is probably true. It seems
14 to me that it is a balance of advantage as to what is
15 best for the country. The end result of this kind of
16 argument is we should not have any foreign investment
17 because we should keep all our assets for Canadians.
18 This could be argued but we think that the immediate
19 urgency is the one of more rapid growth. We think this
20 is a way of stimulating growth.

21 We have tried various other ways to get rid
22 of our unemployment problems and grow a little faster,
23 without too much success, in the last few years. We
24 think this is a very really hopeful method of doing it.

25 If the price is of a little more advantage
26 in Canadian assets, which may belong to some foreign
27 holder, than he would get when given in precisely the
28 same level of taxation rate, I would myself think that
29 this was a price worth paying.

30 THE CHAIRMAN: Thank you, Mr. Fowler.



1 Usually when the Government gives out some
2 revenue of this kind, I would think it would expect the
3 benefit of that to flow to stimulate production and to
4 assist in consumption. It would, of course, stimulate
5 production to the extent it is accumulated. But, it would
6 not move back to the shareholder at the low rate.

7 As you say, it is a matter of the weight to
8 be given to it. It is not the same advantage that would
9 be achieved, if reduction, that affected Canadian invest-
10 ors.

11 MR. FOWLER: I do think that for fairly
12 quick results, one of which might be reduction in prices
13 which would have a very wide effect on individual
14 Canadians.

15 THE CHAIRMAN: The foreign investor looks
16 at Canadian tax -- let us say the U.S. investor -- having
17 regard to his own rate. If his own rate is 50 per cent,
18 the Canadian rate would be possibly 52 plus one-half of
19 the withholding tax subject to the 1963 adjustments.
20 One-half of the withholding tax would be $7\frac{1}{2}$ or 59.

21 MR. HALL: It seems to me when we were draw-
22 ing this up we were looking at this as a Canadian cor-
23 poration incentive without regard to where the corporation
24 might be owned, and the 50 per cent tax is a very great
25 disincentive, I am sure. It does very horrible things
26 to the efficiency of Canadian manufacturing operations,
27 the philosophy that the Government pays 50 per cent and
28 makes people do the wrong things, I am sure.

29 This together with some of the other consid-
30 erations made us feel this would put the industry in a



1 much more competitive position where it would expand.

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3 THE CHAIRMAN: I think that is one of the
4 points I was looking at.

5 COMMISSIONER PERRY: I am interested in this
6 international comparison. It is stated here that Canada
7 would probably have to follow such a move with at least
8 a similar reduction. I was just wondering why it is
9 felt that the American precedent would be so compelling.
10 I am thinking, for example, the crude unadjusted figures
11 of tax rates maybe misleading. Our 50 per cent includes
12 3 per cent -- we have security tax for which there are
13 counter parts in other countries which are not reflected
14 in the corporate rate because they are mainly payroll
15 taxes.

16 These would be probably enough to bring the
17 48 per cent back up to 50 in the United States federal
18 system.

19 They are, in addition, U.S. State taxes
20 and perhaps an additional 3 to 5 per cent which might
21 put your 48 plus 2 up to 53 or 54.

22 These sort of things are being compared with
23 the aggregate Canadian rate which includes the provincial
24 tax.

25 If an advertising agency were starting out to
26 publicize our Canadian corporation tax rate, they would
27 eliminate 3 per cent as being something, a counter part
28 of other ways and other countries. They then go on
29 and eliminate an additional 9 per cent as being an area
30 which is occupied by provincial companies and not a federal



1 tax at all. You come down to a federal tax rate of 38
2 per cent. One could advertise Canada as being a tax
3 haven.

4 MR. FOWLER: I think there is a great deal
5 in what you say of the crude relationship tax rates and
6 invalidity of taking the crude rates as a comparison.
7 I think you can go to the other side. You can go to
8 forestation and depletion that are allowed in the United
9 States. That may give an effective rate of 38 per cent
10 or 35 per cent. Frankly, with great respect, I do not
11 think it works that way. This is a political matter.
12 A simple and political judgment is going to be, our rate
13 is 52 and your rate is 48, get it down.

14 I would like to think that the advertising
15 arts got to this level, but I would not be inclined to
16 back that agency too well in convincing Canadians that
17 a rate of 52 per cent is really not this, it is only
18 37. This, I am sure, they would not fall for, and I am
19 saying this is not a logical judgment not based upon
20 accurate comparison of the true burden of taxes between
21 the two countries.

22 It is a political hunch, if U.S. reduces tax
23 rates of corporations to 48 per cent we are not politically
24 going to hold a 52 per cent rate.

25 COMMISSIONER PERRY: I would be inclined
26 to agree, there is an element here other than logic. I
27 hope your tax advisors are not being mislead by them.

28 One other point I would like to raise is
29 that, as you know Sweden is one of your main competitors
30 in the world. When you look at the Swedish tax system,



1 in its main outline it is a pretty tough tax system.
2 They have a very high corporate tax rate. There is no
3 allowance made for the fact that corporation profits
4 have been taxed when the shareholder receives a dividend.
5 Apparently their sales tax applies to the machinery and
6 apparatus of production.

7 I understand there is not any relief given
8 on exports of commodities from Sweden for the sales
9 tax, but at the same time you do find in the Swedish
10 system some very generous and dramatic sorts of reser-
11 vations and concessions.

12 It seems to be at the opposite extreme -- a
13 system which generally is tough in its main impact but
14 which is full of concessions.

15 One of the chairman's favourite questions
16 is whether an industry would prefer the general tax
17 reduction to concessions, special reserves, and that
18 sort of thing.

19 MR. FOWLER: I do not think I can give you
20 an industry answer on that question. It is not one that
21 we have considered. The fact is that the industry did
22 come forward with a brief on the basis of general tax
23 reduction and has not put forward the kind of specific
24 tax dealings and tax concessions that are involved in
25 the Swedish system.

26 I can speak personally, I think I prefer the
27 general. I might like to think that I would succeed in
28 wangling, from time to time, some special concessions but
29 I think that the system as a whole is likely to be a
30 better one if it does not depend on that kind of special



1 concession.

2 THE CHAIRMAN: I think that is fairly gen-
3 erous. There must be concession after capital on in-
4 tensive industries and yours is certainly such.

5 MR. FOWLER: I am speaking personally there.
6 I do not like the pulling that goes on in special con-
7 cessions.

8 COMMISSIONER GRANT: I think it is interesting
9 to have your views. To explore further the international
10 flow of capital, I recall the strife for free flow of
11 capital into this country and out of this country and
12 that the tax rates applied in Canada would be the same
13 on foreign capital as the local capital.

14 That might be likened under the principles
15 of free trade. Whereas we seem to be moving in the
16 line of a protectionist policy, if you can apply that
17 term to our fiscal policy.

18 Assuming that we will be on that line and
19 that will be our destination for some time, to come,
20 would you express yourself as to whether you consider
21 that a 25 per cent Canadian ownership in capital brought
22 into this country is in the long run going to prove a
23 great impediment to that capital coming into Canada.

24 MR. FOWLER: I am grateful for you raising
25 this because it does give me a chance to re-emphasise
26 the special situation about the flows of capital which
27 I tried to put in this morning as applying to this in-
28 dustry and perhaps not to the other industries to the
29 same degree.

30 I would like to repeat the point that there



1 are shortages of things that are for this industry or
2 possibilities for this industry which are based not on
3 general tariffs and not on other things but are based on
4 the existence of a growing fibre shortage and increasing
5 demand for pulp and paper in various parts of the world.

6 They can go here or elsewhere and they will
7 not come here with the possibility against us of a
8 protectionist nature. I agree with you, Mr. Grant.

9 Here we are in the midst of trying to expand
10 our trade and are arguing in terms of going to GATT
11 and contributing to free world trade, at the same time in
12 the process we are putting obstacles against the movement
13 of capital which up to now has been very largely a
14 free one.

15 As to 25 per cent Canadian ownership. In
16 the first place I do not think there is any magic at
17 all in 25 per cent. I do think that some Canadian owner-
18 ship in some companies is a good thing in order to bring
19 to bear on the corporate policies of the Canadian point
20 of view. But, I do not think there is any magic in
21 the 25 per cent. I think that in many instances you
22 could have this kind of influence brought to bear at
23 5 per cent interest or 3 per cent interest or even one
24 share that is well represented on the Board of
25 Directors would give it.

26 Whatever figure might be chosen, I think
27 you have got to make a division between the past and
28 the future. I do think discriminatory taxes ought not
29 to be used to compel the divorce of 25 per cent of
30 an American company into Canadian hands. I think it



1 is unfair. There may be cases where it is impossible
2 to do, for good and sufficient reasons. I think you have
3 no assurance whatever that it is going to be taken up.
4 If taken up to do by Canadians you have no assurance
5 they will stay in their hands tomorrow. Some Canadian
6 shareholders tell me they may place them in Canada for
7 a week or two or a day or two and very quickly they
8 moved on, usually into American investment trust.

9 So, the whole elaborate process is useless.
10 There is no way of preventing this if you are going to
11 have free money exchanges.

12 Furthermore, I think if you could do it
13 and divert and have 25 per cent of every American controlled
14 company held in Canadian hands, and there is enough
15 money around this country to take it up.

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1 When you are all through you will not have added one
2 single job in Canada, not one. It is the old business
3 of diversion, and I do not like diversion. So as far
4 as this effort goes, we have got better uses for our
5 money than this.

6 COMMISSIONER GRANT: Is this not partially
7 designed to cut down the flow of money from this country
8 to a foreign country by way of return on capital?

9 MR. FOWLER: Well, it may very well be, and
10 this, I guess, is the basic difference between us and
11 that philosophy.

12 We think we are going to need the flow of
13 capital and that we ought not to tinker with this flow.
14 The ordinary forces of the money markets will decide
15 this thing much better than deciding whether we want
16 more or less.

17 But it seems to me that it is a little
18 difficult to follow a policy which will seek to cut
19 down the flow by taxation methods in Canada, and we feel
20 very disturbed and upset by an attempt to cut down the
21 same flow by taxation methods in the United States. I
22 think both these are wrong. Well, anyway, this 25
23 per cent business of the past and trying to achieve a
24 result that existing companies that have come here
25 should become 25 per cent Canadian-owned -- I have said
26 what I can say about that.

27 As far as the future is concerned, I think
28 you could in fairness, if you want to, say that in future
29 any new developments in Canada would be 25 per cent
30 owned and if you are not prepared to give a 25 per cent



1 interest to Canadians, then don't come. I think some of
2 the same things apply to it, but I do not think the
3 charge of unfairness applies to that.

4 I would personally question the wisdom of
5 it, because again I think the 25 per cent is of no sign-
6 ificance. The Canadian participation, even if you get
7 it one day, you may not have it the next, and you are
8 going through a great fuss over this for no purpose
9 whatever.

10 COMMISSIONER GRANT: I suppose there is always
11 the feeling on the part of the foreign investor that
12 if it is 25 per cent now it could be 30 per cent at
13 some future time and would lead to confiscation.

14 MR. FOWLER: It may very well.

15 If I could come back to the point I was
16 making in the main presentation, I think it is perform-
17 ance of corporations in Canada that matters, not owner-
18 ship. I think you might argue that if the foreign owner-
19 ship was the ownership of the States, that this is not
20 American ownership; this is ownership by a great many
21 Americans, to take them as an example. I cannot really
22 in my observation see that they behave any differently
23 as owners than an equal snatch of Canadian owners do.

24 It seems to me it is the performance of
25 corporations that we are concerned with, corporations in
26 Canada where the bricks and mortar are. It is difficult
27 to deal with this by legislation, but if we were clear
28 as to the things we really wanted in performance, I
29 think we would get some very surprising results. But
30 nobody will tell them what performances we do want.



1 One of the things -- and we have got a whole
2 list of five or six separate things that we draw out on
3 the subject of what is wrong with subsidiaries of foreign
4 corporations in Canada -- one of them is that they do
5 not employ Canadians. Another is that they have not
6 hired Canadian directors; another is that they do not
7 allow exports; another is that they do not contribute
8 to charity, and another is that they are not active in
9 research. I think you could take every one of those
10 headings. Obviously I am not going to get into naming
11 the names in this, but you could take every one of those
12 headings.

13 Let us take research. I am speaking now
14 of the companies that I can observe. I could point to
15 companies 100 per cent owned in the United States who
16 are leaders in research in Canada. I could point equally
17 to 100 per cent owned Canadian companies that have not
18 the slightest interest in research.

19 On the same basis you could take the story
20 of general participation in Canadian affairs as being
21 part of the Canadian scene. I can see no trace whatsoever
22 that this has any relationship to the ownership in the
23 industries that I see. As far as participating in exports,
24 the same thing applies. There are companies 100 per cent
25 owned that are leaders in exports not only to the United
26 States but throughout the world, and there are many
27 Canadian companies wholly owned in Canada who could export
28 but are not interested in it.

29 If we want to have more research in Canada,
30 done in Canada by everybody, including the owners of



1 American companies, we have already found a way of assist-
2 ing that by the tax route. If they are not doing it,
3 I think there may be other ways to compel a company not
4 to concentrate all its research down in the United
5 States.

6 If it is a question of export trade and
7 you find export trade practices that you do not like,
8 first of all see if you cannot get them voluntarily
9 removed and then crack them -- but crack them in Canada
10 as a practice that you want to achieve rather than making
11 what I think is completely misdirected legislation dire-
12 cted towards ownership.

13 May Mr. Rankin add one or two words?

14 THE CHAIRMAN: I would like to stay with
15 the sections in the brief as closely as we can. The
16 matter of this subject comes up later on in the brief.
17 We are really dealing with the rate of corporation income
18 tax. But if you would like to complete what Mr. Fowler
19 said, by all means do so.

20 MR. RANKIN: I just wanted to make one point
21 with respect to Mr. Grant's question about this provision
22 of 25 per cent -- and this is mentioned in the brief.
23 It is not too well emphasized and not too well known
24 apparently to the public but the actual task of repatriating
25 25 per cent of American securities is immense. This is
26 a completely unreal project except over a long period of
27 time. It is not recognized. It is difficult to get
28 the figures because you must estimate arbitrary evalua-
29 tions based on income.

30 THE CHAIRMAN: That was discussed at the Tax



1 Foundation meeting this week by Mr. Cretzianu who
2 stated that it could not be done, he believed, within the
3 time permitted by a wide margin.

4 MR. RANKIN: The second very brief point is
5 one that Mr. Fowler made. That was that the existing
6 assets are in the country and we should not be diverting
7 our resources to acquire things that are already here
8 and which we can control, unless there is no other method
9 of doing it. All our savings and investments should be
10 going to acquire new assets.

11 COMMISSIONER GRANT: I am under the impression
12 that this arose not so much from the point of view that
13 we were losing revenue as it was that we were not
14 controlling our own resources, through our own ownership.

15 MR. HALL: May I say something as regards
16 that?

17 THE CHAIRMAN: Yes.

18 MR. HALL: As somebody who is from an almost
19 100 per cent Canadian-owned company, I would like to sub-
20 mit in parity to what Bob Fowler says about not caring
21 about this American ownership or other foreign ownership.

22 I would look at it this way. If the
23 Canadian Government makes it attractive to all Canadian
24 corporations to do research, as an example, and if some
25 of the foreign-controlled subsidiaries do not wish to
26 take advantage of this situation but the domestically-
27 owned ones do, we will have achieved the result which we
28 want without having offered any penalties in this. The
29 Canadian company, if it is here on the scene, takes
30 the advantage offered. If the other does not, the com-



1 petitive advantage is given to the Canadian company.

2 THE CHAIRMAN: Are there any questions as
3 to corporation tax?

4 COMMISSIONER WALLS: The only question that
5 I would have there is on what basis you arrive at the
6 suggestion of 40 per cent? In other words we have had
7 people before us who have recommended the entire elimin-
8 ation and have used exactly the same arguments for elimin-
9 ation as you are using for bringing it down to 40 per
10 cent. How did you arrive at the basis of 40 per cent instead
11 of 20 per cent or any other percent?

12 MR. FOWLER: I think we had all kinds of
13 things in the earlier efforts to draft this brief. I
14 recall at one time there was a very vigorous debate in
15 the group as to whether we were going to put 25 per cent
16 in instead of 40. I think I again selected 25 per
17 cent in the other context. I do not think it is of
18 great magnitude whether it is 40 per cent or not.

19 What we say is that there is a case to be
20 made for having the Canadian corporation tax rate sub-
21 stantially below specifically that of the United States,
22 and we thought that 40 per cent was such a substantial
23 move, assuming they go to 48. We thought that the
24 costs were within a tolerable range. The move was not
25 too great and as a practical matter we thought this was
26 something that was reasonable to suggest and would
27 accomplish the thing we wished.

28 Obviously you could go to another approach,
29 which would eliminate the corporation taxes entirely
30 and have some kind of value-added tax provision as they



1 have in other countries. We thought that in the system
2 we have this is the kind of move that might be practical
3 and would fill the bill. But we do not want to suggest
4 it. If it is decided it should be 38 or 42, it will
5 really make no difference to the point.

6 THE CHAIRMAN: In your paragraph 12 you
7 discuss the effect of the tax reduction on the distrib-
8 ution. You refer to the fact that some might be passed
9 on to the consumers in the form of lower prices.

10 I had the impression that in your industry
11 that would not generally apply because you trade in
12 international markets mostly and they probably set the
13 prices, and should taxes be reduced it would mean very
14 little reduction in the price of newsprint, if any.

15 MR. FOWLER: I think you are right that
16 the international commodities like newsprint and pulp
17 are world market prices and they are subjected to other
18 forces than this kind of thing in the main.

19 I think that there are a great many other
20 commodities in our industry which could be subjected
21 to this. There are packaging materials, fine papers;
22 there are a whole host of craft products and the like
23 which would be subjected to the cost or the profit
24 mechanism.

25 I must say that this point was not specifically
26 dealing with our industry but was a general point where
27 we say it will vary from company to company, from product
28 to product and from time to time.

29 COMMISSIONER GRANT: Perhaps, Mr. Fowler,
30 you would address yourself to the question of what effect



1 you consider the increase of the corporate tax on companies
2 whose earnings do not exceed \$35,000.00 taxable income would
3 have -- what effect that would have on those companies
4 and on the economy.

5 At the same time would you visualize, or
6 would you be agreeable to or would you advocate that
7 there should be some other incentive given to those
8 companies so as to make up the difference which they
9 would be called upon to pay on tax?

10 MR. FOWLER: As I did say, Mr. Grant, I think
11 that it is very difficult to work out an exact answer
12 to this kind of question as to what effect it will have.
13 If the company which happens to make \$34,000.00 a year
14 and pays it all out happens to be wholly owned by a man
15 who is in the 65 per cent tax bracket, then there would
16 be a gain in taxes from it. I presume in that case he
17 would not pay it all out.

18 There is this point, that there is an ability
19 in the smaller companies, a greater ability to adjust
20 so that there is not a substantial tax loss.

21 I just feel that the \$35,000.00 is a completely
22 unrealistic thing which is not the optimum level now
23 even with small businesses in all probability and it has
24 no significance.

25 But the main thing is that the 21 per cent
26 applies to all big companies too, and they should not
27 get the continuing advantage of the 21 per cent and get
28 a reduction in corporation taxes mainly from the admin-
29 istrative point of view that you cannot handle it on the
30 other argument of treating the corporation taxes as a



1 deduction for personal income taxes. If there were com-
2 plete inequities or serious inequities created for this
3 group, I certainly think we would be quite prepared to
4 see some compensating advantages of some kind. But we
5 see little difficulty in it on the 21 per cent basis.

6 COMMISSIONER GRANT: It depends, according
7 to your theory, on the pay-out and the individual tax
8 rate.

9 MR. FOWLER: I think it must, yes.

10 THE CHAIRMAN: We will go to paragraph 14 if
11 nobody else has any questions.

12 COMMISSIONER BEAUVAIS: I would just like
13 to ask whether paragraph 11 states what you believe to
14 be the main objective of the reduction in tax?

15 MR. FOWLER: I think that is right, Mr.
16 Beauvais. I think we do elaborate the point in later
17 paragraphs.

18 COMMISSIONER BEAUVAIS: It is your elaboration
19 that bothers me because it is not consistent with paragraph
20 11. There you speak of increasing dividends and that
21 sort of thing and it is not implied in paragraph 11.
22 The implication there is that you are going to re-invest
23 more funds because more projects will become profitable
24 This is really what you think is the main objective to
25 be served?

26 MR. FOWLER: Yes, we do.

27 THE CHAIRMAN: You believe that a corporation
28 tax is a very important economic control, I think, by
29 your submission?

30 MR. FOWLER: Yes, we do. We think the cor-



1 poration tax is in many cases a very real and determining
2 factor if it is at this level or at that level as to
3 whether the project will go forward or not.

4 THE CHAIRMAN: We are always concerned with,
5 should taxes be adjusted, whether the adjustment should
6 go towards production or towards consumption. You have
7 put all the emphasis on production in your submission.

8 MR. FOWLER: This is right. We think that
9 if you improve the productive facilities and take
10 other appropriate policies, such as trade policies,
11 monetary policies and the like, you will get your improve-
12 ment in consumption also and the whole thing will grow,
13 both the numbers of people and their returns.

14 THE CHAIRMAN: We receive advocates of
15 the production school and also advocates of the consumption
16 school. I just wanted to be clear where you were.

17 In 14, the equalization tax, I would like
18 to be clear as to what that is. I think I understand
19 it, but I would assume that there would be an equalization
20 in tax from each country which would obviously have to
21 be adjusted to the taxes of the country receiving --
22 whose citizens are receiving dividends. Also it would
23 have to be changed depending upon the changes in those
24 countries' taxes.

25 ---
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1 THE CHAIRMAN: It would not be a free tax.
2 I would have thought there would be great peril in such
3 a plan in that if anything would provoke retaliation
4 this would provoke retaliation and I think one form of
5 retaliation would be for the foreign country to reduce
6 its taxes and benefit some of the citizens at the cost
7 of the Canadian treasury.

8 I think one could keep on adding examples
9 to this ad infinitum.

10 MR. FOWLER: You are perfectly right. This
11 would involve, as stated here, a different tax rate
12 and changing tax rate depending on the major trading
13 nations which you are dealing with. I do not quite see
14 the United States, in order to take a whack at Canada,
15 giving a large benefit to citizens to lower equal-
16 ization tax.

17 THE CHAIRMAN: If it is not going to benefit
18 them as a nation by its deduction, no matter what the
19 rate is it might as well reduce it and let the citizens
20 have the benefit. It seems to me they are in the same
21 position as Canadians as to levying the equalization
22 tax.

23 MR. FOWLER: I must say, Mr. Chairman, we
24 had not thought that this equalization tax would likely
25 provoke retaliation because, where would the pressure
26 for it come?

27 We are not taking anything away from the U.S.
28 treasury. We are trying to prevent a windfall benefit.
29 We are not taking anything away from the U.S. owner or
30 investor. He is being treated exactly the same overall



1 if he invested in his own country. I do not see from
2 where the pressure for retaliation would come.

3 THE CHAIRMAN: You are taking money away
4 from the U.S. treasury by this.

5 MR. FOWLER: Not money they have.

6 THE CHAIRMAN: Money they would otherwise
7 have. Therefore, it is specifically aimed at taking
8 money from the U.S. treasury. If you do that, and they
9 recognize that this tax is going to be reduced to the
10 extent where it does not harm investing citizens in
11 Canada, surely if they are getting them from the treasury
12 and is of no benefit to reduce their taxes because they
13 know Canada will reduce the Canadian taxes if they do,
14 and therefore I would think you are going to keep on
15 negotiating this kind of thing indefinitely.

16 MR. FOWLER: I may be misunderstanding this.

17 Suppose we had a tax in the United States
18 and in Canada -- 48 per cent in the United States and a
19 40 per cent rate in Canada. Equalization tax would be
20 such that it would be an 8 per cent rate. What would
21 it do? It would tax, in effect, overall the American
22 investor 48 per cent which is precisely what he would
23 have paid if he had invested in his own country.

24 The United States Treasury has not had any
25 money from move of Canadian tax, and not taking from
26 them what there was but only taking from them what they
27 might have got if we had not put equalization tax in.

28 Supposing, even so, they are still getting
29 their 48 per cent tax to the extent that the money is
30 taken over from Canada.



1 THE CHAIRMAN: To the extent the money is
2 taken over from Canada.

3 MR. FOWLER: At this point of time they
4 do not get that. They do get the full amount or any
5 money which flows over to the other side. We feel a
6 little unhappy about this extra amount being left in
7 Canada. But, surely it would not happen that they would
8 lower their 48 per cent rate to 40 per cent for every-
9 body.

10 THE CHAIRMAN: The only purpose of equalization
11 tax is to take money out of their treasury.

12 MR. FOWLER: It is to prevent money going
13 to their treasury which has not gone in the past and
14 not to go in the future.

15 THE CHAIRMAN: Because we have reduced our
16 rate below theirs and it is to keep that additional
17 money in Canada. If we did not impose this, their
18 treasury would be the beneficiary.

19 MR. FOWLER: Yes. By reason of our tax
20 reductions again.

21 MR. RANKIN: Could I say a word on this. This
22 problem came up several years ago with respect to low
23 rates in income to offer incentives to American invest-
24 ors. At that time the idea was to prevent the outflow
25 of foreign capital upon part of the U.S. and to do away
26 with this unnatural advantage for a class to be built
27 outside of the United States depending on revenue obtaining
28 tax, but naturally the revenue aspect was added to it.

29 The main purpose of it was to prevent a
30 country like Luxemburg to offer extreme advantages that



1 somebody would build a plant in Luxemburg. At that time
2 it was suggested that Luxemburg would be very foolish
3 not to raise the tax on foreign investments too. It
4 would not make sense that Luxemburg, by an act of
5 American Parliament, would not make that move.

6 THE CHAIRMAN: If the U.S. is taxing and
7 seeking revenue from Canada at 48 per cent, and we put
8 our equalization tax of 8 per cent on to raise ours from
9 40, the U.S. Government would be getting nothing out of
10 it because of our equalization tax. If they think that
11 the equalization tax was for the purpose of equalization
12 only and they reduce their 48 per cent on Canadian
13 income -- I only speak of Canadian income -- down to
14 40 per cent knowing fully well we would reduce our
15 equalization tax because its purpose was only to pick
16 up the difference, their citizens would have benefits
17 to the extent of that reduction and would they not so
18 reduce their taxes to Canadian income.

19 If we can have variable taxes on foreign
20 and domestic investment we can have variable tax in
21 respect to income to different countries. Are not we
22 going to get into a situation where they are adjusting
23 their tax on Canadian income as we adjust our tax on
24 U.S. income?

25 MR. RANKIN: The tax is not directed towards
26 income. I think equilization tax -- the American investor
27 would still not be induced to invest in Canada. There
28 might be pressure groups in Congress but I would not
29 think of them getting very far in Congress.

30 MR. FOWLER: If this did not happen, Mr.



1 Rankin, it seems unlikely they would say, because the
2 Canadians are treating you people to 40 per cent we
3 will treat their 40 per cent too, and we will eliminate
4 this equalization tax on that. If this happened, it
5 would have an advantage to the American investor overall,
6 and not be a disadvantage to Canadians except to the
7 extent we would not get an equalization tax revenue which
8 is not putting in basic before tax purposes except to
9 prevent an unjust windfall to a foreign treasury. If
10 it wants to take extraordinary measures to give a special
11 benefit to a group of citizens in order to eliminate
12 equalization tax, it would not be too serious from our
13 point of view.

14 THE CHAIRMAN: I agree with that. I am more
15 concerned about the reciprocal tax, combination of which
16 this
17 which under/principle of this would go up.

18 MR. FOWLER: My own very much personal
19 belief would be that you would have a rate for the
20 United States, you would have a rate for the United
21 Kingdom, and probably West Germany and Japan, and have
22 a general rate to apply to others. You would not have
23 to apply this to every single country you are trading
24 with.

25 COMMISSIONER GRANT: To what extent could
26 retaliatory measures be avoided. Isn't it possible that
27 such a thing as this would be discussed and could be
28 agreed upon?

29 MR. FOWLER: If anything like this would be
30 done, we would have to have discussions and explanations
to minimize chances of retaliation and perhaps it could



1 be a generalized sort of understanding that if you lower
2 your tax we will adjust, and if you raise them we will
3 raise them.

4 COMMISSIONER PERRY: ^{you} Do not over-simplify
5 the U.S. position because they have a split rate of tax
6 and apparently propose to continue. ~~Not is the~~
7 ~~situation clear in~~ the U.K. where you start
8 the question of
9 out with/whether the standard rate is corporate tax
at all.

10 It is not a standard rate, it goes on from
11 zero to 38 per cent depending on the foreign income of
12 the company.

13 I think you might regret imposing this on
14 your company with foreign shareholders.

15 MR. FOWLER: I must say that I would not want
16 to make a statute specifically, tax statute specifically.
17 I do not think we go too far wrong if we take the
18 United States yardstick for this purpose. If it turns
19 out to be 8 per cent equalization tax, I do not think
20 we would be too badly off with other countries including
21 the U.K.

22 COMMISSIONER PERRY: It might be limited
23 to contiguous companies.

24 MR. FOWLER: Like export of gas.

25 THE CHAIRMAN: If there is nothing else on
26 this section we can deal with the treatment of dividends.

27 The treatment of corporation tax as ~~reduced~~
28 uction at source on personal income from dividends which
29 is akin to the U.K. system of taxes without regard to
30 their profit taxes, the way they tax income.



1 You indicate in paragraph 18 that this
2 would eliminate the present discrimination against the
3 investor in Canadian stocks vis-a-vis non-equities and
4 other forms of investment, and I believe you are thinking
5 of double tax corporate income when you say that.

6 Assuming there is double tax on corporate
7 income, you suggest that part of the corporate income
8 should be passed on to employees, customers and so on.
9 The change would encourage Canadian ownership of Canadian
10 shares. That is something I want to look at. I was
11 wondering whether U. K. shares look better in the U. K.
12 than Canadian shares look to Canadians in Canada.

for U.K. shares.

13 You are suggesting a higher value / I do
14 not think that is true. But, it may well be. Canadian
15 shares sell at a pretty high price in Canada. Something
16 like 20 times ^{earnings or a} usual yield of $3\frac{1}{2}$ per cent.

17 I would be surprised if you tell me a higher
18 figure in Canadian shares. I am wondering whether your
19 proposal to cause Canadian shares to sell so with higher
20 ratios certainly higher prices, because you cut down
21 in taxes you have more profit and the price goes up.

22 I thought Canadian shares must look pretty
23 good to Canadian investors by what they are prepared
24 to pay for them.

25 MR. RANKIN: The first statement there is
26 merely if we want to have Canadians buying equity stock,
27 and presently have a choice between equity and non-
28 equity and other forms of investment. If you make one
29 form of investment more attractive, the whole choice
30 pattern will work to a new equilibrium and also give ad-



1 vantage to equity shares.

2 The new equilibrium would slightly be better
3 for equity so you have been encouraging equity investment.

4 As far as what has happened in the U.K.
5 is concerned, we try to get some prices on price earning
6 ratio, but nothing conclusive you could draw from them.

7 COMMISSIONER GRANT: If you drew a taxation
8 policy to make equities more popular, would you not
9 have to have more shares available, and perhaps if more
10 shares are available new capital will be raised through
11 equity participation. Is there not a reluctance on
12 the part of the corporation to commence by way of
13 equity?

14 MR. FOWLER: The question of reluctance on
15 the part of the corporations or whether it is the rel-
16 uctance of the public to invest. I think it is more
17 likely the latter.

18 THE CHAIRMAN: Prices of common stocks are
19 not low, as far as I can see, in Canada and if we are
20 reluctant to buy stocks the price will decline.

21 MR. HALL: I think there is another side to
22 this question. I think the corporations avoid, like
23 the plague, issuing equity if they can, not because
24 of a reluctance on principle to issue equities, but
25 simply because the money which comes in on fixed interest
26 securities tax-wise is extremely advantageous even
27 if you have to pay 6 per cent. This nets down to 3
28 on this 50 per cent corporation tax.

29 THE CHAIRMAN: This is said quite often
30 and I would be interested to know if you have done



1 any financing where you compare the two, and you have
2 come down in favour of bonds because of taxation.

3 MR. HALL: Oh yes, definitely.

4 THE CHAIRMAN: Even having regard to dividend
5 stock?

6 MR. HALL: Yes. We have had some pressure
7 inside our Board of Directors from time to time to
8 retire the preferred stock which we have outstanding
9 and re-issue a similar kind of bonds which I think would
10 be a good step.

11 -----



1 That might not help you taxationwise.

2 MR. HALL: It would help a little.

3 THE CHAIRMAN: It depends on what the original
4 issue of the preferred stock was.

5 MR. HALL: This particular one would be
6 all right, as it happened.

7 I think the English situation reflects this
8 well. I think most of the English companies as a result
9 of this situation have a very much higher equity capital
10 and a lower proportion of their capital indebtedness
11 that most of the Canadian companies have. You do as
12 a result of this thing have a very much broader equity
13 basis in the British companies.

14 THE CHAIRMAN: You would think that is
15 induced by the traditional British view of debt, their
16 dislike for putting their companies into debt.

17 MR. HALL: I am not in a position to comment
18 on that.

19 THE CHAIRMAN: It is very hard to get at
20 motives, as you know.

21 COMMISSIONER GRANT: It would be very desir-
22 able to have more equity available. It is generally
23 regarded as a good thing in Canada, because the market
24 is pretty thin on a good many stocks and very few shares
25 on a buy or sell basis will change the market materially.
26 While this is a desirable thing, it becomes a question
27 as to whether or not it would be taken advantage of
28 by corporations if it were made available.

29 MR. HALL: This is purely a personal opinion,
30 but I think it would be taken advantage of.



1 COMMISSIONER GRANT: If equities were made
2 availabb, there would be more corporate financing done.

3 MR. HALL: Yes.

4 THE CHAIRMAN: If equities are not sufficiently
5 attractive at the present time, I wish somebody would
6 tell me why they are so expensive, because I think they
7 are all expensive.

8 COMMISSIONER GRANT: I would venture to answer
9 that. I do not think they are ---

10 THE CHAIRMAN: You do not have to answer that.

11 MR. HALL: Equities are yielding something
12 in the order of 4 per cent and bonds are yielding some-
13 thing in the order of 6 per cent. I think that the
14 difference in taxation to many people makes this reason-
15 ably attractive and the balance of the difference is
16 certainly made up by continuing the fear of inflation,
17 whether rightly or wrongly. This is the thing which
18 is doing it.

19 THE CHAIRMAN: Also accumulation of earnings
20 which is adding to the value of the stocks all the
21 time, and these companies blow back all their earnings.

22 MR. FOWLER: This capital must produce some
23 fear perhaps of inflation. There is not much of that
24 about at the moment. In other words, what you are saying,
25 Mr. Hall, is that the relationship of 6 to 4 per cent
26 is probably a justified relationship?

27 MR. HALL: Yes.

28 MR. FOWLER: And this leads you back to your
29 18, 17 per cent on earnings?

30 MR. HALL: On the proposals here it is 4



1 per cent for people in the appropriate income tax
2 bracket. If you get to be higher than that bracket --

3 COMMISSIONER BEAUVAIS: I take it the main
4 advantage of these things would be to the middle and
5 lower incomes. I think you could reach a point where
6 the advantage, compared to the present position, to a
7 person with a higher income might even disappear and
8 perhaps become a penalty.

9 MR. FOWLER: It might easily.

10 COMMISSIONER BEAUVAIS: The real question is
11 that who is it that purchases shares? This seems to
12 rest on the assumption that it would be the middle and
13 lower income people. They would be attractive to lower
14 income people because they would be getting refunds for
15 corporation profit tax. I think there is an element of
16 gamble in your proposal.

17 MR. FOWLER: I think this is fair enough,
18 but if it is in favour of the middle income and lower
19 income brackets, which would induce them to participate,
20 to take part in developments in Canada through share-
21 holdings, this might be a good result.

22 MR. HALL: I think this would be a very
23 strong part of this. This is one of our problems, we
24 kept talking about earlier -- people in and out of the
25 situation. If you can really make it attractive to
26 middle income people to do this investing in equity,
27 you will have brought it into the market for the future
28 development of this country -- a tremendous new source
29 of capital.

30 COMMISSIONER GRANT: A lot will depend on



1 the particular industry and how it looks at the situation.
2 You have in Canada the chartered banks, which is entirely
3 equity capital. They will issue rights which are in-
4 variably prescribed by the present shareholders, a
5 very high percentage of their authority. They are not
6 concerned as to where that control rests as long as it is
7 in Canada and is within the limits of the Bank Act.

8 But on the other hand an industrial company
9 likes to know where its shares are and it likes to know
10 cost for the shares, where the shares rest, their value,
11 and, through the fixed income type of investment, bond
12 issue, it is not endangering the ownership of the company.
13 I should think that regardless of how enticing equity
14 is going to be made, that would be a dominant issue,
15 a dominant consideration in the raising of money.

16 MR. HALL: I do not think it is quite as
17 dominant as generally believed. If the gentlemen from
18 the press here would not mind not quoting figures, I
19 think this is a prime example of it right in the company
20 I represent. Dominion Tar has a capitalization of about
21 \$300 million. It is almost entirely owned in Canada;
22 it is 90 per cent owned in Canada. There are 40 thousand
23 shareholders and this number has been growing.

24 The control of the company rests with
25 Argus, who handle about 17 per cent, and one might very
26 well expect this will be one of the areas where there
27 would be a great reluctance to issue equity stock.

28 But actually you will see that this has been
29 done on two or three occasions and the Argus directors
30 have made it quite clear that if it is however advantageous



1 to us to secure our money this way, they will have no
2 objection. There is a wider field here than is generally
3 realized.

4 COMMISSIONER GRANT: Of course, all equity
5 financing, new issues of stock to-day are invariably done
6 through the rights.

7 MR. HALL: That is right.

8 COMMISSIONER GRANT: And thereby control is
9 not put on the state.

10 MR. HALL: The actual words of the Argus
11 directors who have talked about this thing have been
12 that as long as this is done by the issuance of rights
13 we will take up our rights to the extent we are financially
14 able to do it and the rest we will let go; we will have
15 no objection to these proceedings.

16 THE CHAIRMAN: Thank you.

17 In paragraph 20 I notice that you make reference
18 to no tax on capital gain. I presume you do not anticipate
19 any tax in capital gain. Am I correct there?

20 MR. FOWLER: This is right. We hope so.

21 THE CHAIRMAN: Proceeding from that, one must
22 be concerned with a fair balance between distributed and
23 undistributed profits, I think. It is quite conspicuous
24 that in some countries in some places it has got out
25 of balance, where it has either put an emphasis on
26 distribution, so that all monies taken out come back,
27 or else it is accumulated.

28 There are certainly conditions in Canada
29 where it has been very profitable to accumulate rather
30 than distribute. That is well known. Have you considered



1 whether the tax rate of 40 per cent on undistributed
2 profits -- because I think that is all the tax there
3 would be on undistributed profits until they are dis-
4 tributed -- would in fact leave a fair balance as between
5 distributed and undistributed profits?

6 MR. FOWLER: I would like some of the others
7 to comment on this. We do say in the brief that we
8 think the overall effect of the proposals would tend to
9 increase pay-out.

10 I, myself, would doubt if that tendency
11 would be so strong that it would destroy the retention
12 of needed funds in the corporation for future develop-
13 ment. In other words it would not come to 100 percent
14 pay-out by any means. And to the extent that it is a good
15 thing socially and from the country's point of view to
16 have a certain amount retained, I do not think it will
17 pay out that much that would prevent future development.

18 I do not think the effect of the proposal
19 is likely to go the other way in which people would keep
20 too much back so that really the Government is not getting
21 a chance to tax revenues.

22 THE CHAIRMAN: I would suggest to you, Mr.
23 Fowler, that if you reduce the tax on undistributed in-
24 come from 50 to 40 per cent and leave the present reg-
25 ulated scale on personal tax rates, you have provided
26 a further incentive to accumulation and there comes a
27 time, if that accumulation occurs, when I suppose one
28 must take care of it the way it is done in other countries,
29 by a tax definitely directed at accumulation.

30 MR. FOWLER: That is right.



1 THE CHAIRMAN: Which is a very unpleasant
2 form of tax.

3 MR. FOWLER: You have other tax methods of
4 dealing with it if this got out of hand.

5 THE CHAIRMAN: We do not have really in
6 Canada, not one that is used anyhow; but most other
7 countries do. But there is a great deal of awkwardness
8 in their use. It is not something that is used easily.

9 Would you not agree that your proposal
10 would tend to favour accumulation as against our present
11 system?

12 MR. RANKIN: Could I answer that?

13 THE CHAIRMAN: Yes.

14 MR. RANKIN: We have considered the proposals
15 as being inter-connected, and the proposal to treat
16 corporation tax as a withholding tax on dividend and in-
17 come would tend to work in the opposite direction,
18 except in those cases Mr. Perry mentioned where the con-
19 trolling shareholder was in the very high income bracket.

20 In our considerations we are more concerned
21 with the increasing pay-out and changing our computations
22 of the tax revenue decrease; but your point is very well
23 taken too. We put in quite a bit of thought on this
24 and tried to get some figures from Great Britain and
25 could not get any definite pattern to guide us as to
26 what the effect would be.

27 THE CHAIRMAN: Pay-out in England was so
28 low, or said to be by many people, that it resulted in
29 take-overs; but there were reasons for the pay-out being
30 low apart from taxation.



1 MR. RANKIN: Some of these things are really
2 conventions that build up over the years and the economic
3 forces cannot change them.

4 MR. HALL: With the pressure of shareholding
5 groups wanting more, particularly these numbers of
6 medium range shareholders, I would have thought the
7 shareholders would have won on it.

8 THE CHAIRMAN: It is subject to marginal
9 rates of 40 per cent. It operates so as to encourage
10 accumulation by those people.

11 MR. HALL: It does not work out quite as
12 easily as it seems on this. I thought anybody with
13 a higher income, with a rate higher than 40 per cent,
14 would lose. Actually I went through a whole
15 series of combinations of this rate up to tax rates
16 associated with incomes right up to the very end of the
17 scale -- \$200,000.00 and up -- and oddly enough there
18 was still some small gain to the tax payer.

19 THE CHAIRMAN: Were you looking at the average
20 rate or the marginal rate?

21 MR. HALL: I was looking at the average
22 rate.

23 THE CHAIRMAN: I think when one comes to
24 consider whether there would be a distribution or not,
25 a man would have regard to what the effect of that addit-
26 ional distribution would be.

27 MR. HALL: Of the marginal?

28 THE CHAIRMAN: That is right.

29 COMMISSIONER BEAUVAIS: I do not think the
30 positions are inconsistent, that there should be pay-out



1 and an increase in accumulation as well. You have a
2 10 per cent reduction in taxes. You can use up half
3 of that for increased pay-out and still increase your
4 retention.

5 MR. FOWLER: This is quite right.

6 COMMISSIONER GRANT: Pay-outs to date, it
7 seems to me, are determined largely by the nature of
8 the industry more than by anything else. There are
9 certain industries that are never faced with any large
10 capital expenditures that have a very large pay-out,
11 and those that are faced with expenses within themselves,
12 which they feel they would like to finance within them-
13 selves, they have a tendency then to hold back. Do
14 you think that that would change very much your tax
15 retention?

16 MR. HALL: I think you would have the same
17 differences between industries as you have now, that
18 inside the given industry I think there would be a
19 little more pay-out than there formerly was.

20 THE CHAIRMAN: Shall we go on to the next
21 section? The next section is headed, "Removal of with-
22 holding tax on dividends paid to non-residents." That
23 is on page 9, paragraph 21.

24 Your proposal would eliminate such with-
25 holding taxes. I suppose the equalization tax is not
26 a withholding tax but it will come in instead presumably.
27 I would have thought that if one reduced the earnings
28 tax down to 40 per cent, a withholding tax on dividends
29 in Canadian companies would not have much effect as
30 against other countries where the tax rates were a good



1 deal higher. But I suppose under your plan there is
2 not much purpose to the withholding tax because you pick
3 up equalization tax.

4 MR. FOWLER: You pick up at least one aspect
5 of the present withholding tax in equalization.

6 COMMISSIONER BEAUVAIS: You are not really
7 thinking of embodying the withholding tax in the equal-
8 ization tax?

9 MR. FOWLER: No.

10 COMMISSIONER BEAUVAIS: I am interested in
11 the fact that we have had this withholding tax for 30
12 years now. During this period we have had quite a
13 remarkable expansion in this country. Is your main
14 complaint directed to, as you frequently say, its present
15 form rather than the form as of November, 1963?

16 MR. FOWLER: The discontent that you get from
17 a withholding tax and the restrictions placed on what
18 I tried to say in the brief has led us to advocate that
19 it be done away with.

20 You say we have had it for quite a long
21 time. We had it at a 5 per cent rate for quite a long
22 time, during which most of this growth took place, and
23 maybe at 5 per cent it is no more than a minor irritation,
24 or a nuisance, or no obstacle to speak of. Certainly
25 it is the larger levels of this, I think, that do it,
26 and the discriminatory features between the 10 and 20
27 per cent. I think that even before the June, 1963
28 budget, which did make this distinction, the 15 per cent
29 was causing an extra tax load for corporations with
30 interests in Canada, which discouraged them from investing



1 here or increasing their investments here. I think this
2 was true at the 15 per cent flat level.

3 THE CHAIRMAN: Was that not because of the
4 high rate of corporation tax? If the corporation tax
5 had been a great deal lower than it was, as you propose,
6 that 15 per cent withholding tax would not have been as
7 effective as you speak of it.

8 MR. FOWLER: I think, just to take the
9 calculation you, Mr. Chairman, brought out earlier this
10 morning, the 15 per cent worked out at approximately the
11 58 or 59 per cent rate. If you reduce the ordinary
12 rate down to 40 per cent, partly in order to induce a
13 flow of investment, and leave the withholding tax at
14 a flat rate without discrimination, as it was at 15,
15 it gets you back up to $47\frac{1}{2}$ per cent. If the United
16 States goes to 48 per cent, then whatever incentive you
17 want for having a flow of capital into this country is
18 gone. The lack of incentive that exists at equal rates
19 with withholding tax at 15 per cent would, by the
20 pluses and minuses have largely disappeared and you
21 would have no pressure behind a flow of money to this
22 country for Governmental purposes.

23 THE CHAIRMAN: Supposing Canada did not in-
24 troduce an equalization tax; would you still feel that
25 one should endeavour to negotiate the withholding taxes
26 down, or negotiate their removal, of course reciprocally
27 with other countries?

28 ---
29
30



1 MR. FOWLER: Yes, I think we would. I think
2 that if you do not have an equalization tax, I suppose
3 there would be a cause for withholding tax of 8 per
4 cent.

5 THE CHAIRMAN: I would have thought it would
6 be lower because its present value of what one would get
7 should those profits be paid over in future.

8 MR. FOWLER: If you do not have the equaliz-
9 ation tax, I think we would agree that a reduction to
10 a reduced level of withholding tax would reduce some
11 of the things. the equalization tax is supposed to do.
12 It is directed to influence and to take your chances
13 elsewhere.

14 MR. RANKIN: Mr. Perry was asking of the
15 history of capital movement. We have had withholding
16 tax in operation for a number of years. It was, during
17 this period, very difficult to trace this information a
18 number of ways of avoiding this tax. These have been
19 gradually shrinking. I do not know if this has any
20 bearing on it. It does affect the judging of the his-
21 torical movement.

22 THE CHAIRMAN Next we move on to page 15,
23 paragraph 33.

24 Now, the present Canadian System, before
25 one goes to incentives at all, I suggest does go beyond
26 the normal measurements of income in a great many cases
27 and does provide incentives. We are familiar with the
28 fact that a large number of Canadian companies show
29 a credit balance for their statements representing
30 tax on difference between the depreciation that has been



1 taken for measure of income and capital cost allowance.

2 I assume you are not going to take that de-
3 preciation as sufficient because many of us have been
4 properly reporting their income and overstating their
5 profits.

6 You must agree that capital cost allowances
7 have exceeded these things. There is an incentive in
8 there, and that incentive is a pretty large one. I
9 think it would amount to a very substantial sum, and
10 the cost to the Canadian Treasury is the interest on
11 that sum and the benefit is generally good and some-
12 times called tax free loan. That is money that the Govern-
13 ment has not yet received.

14 If that is the case, anything that is in
15 the Act is an additional incentive over and above the
16 incentive that is inherent in the present system of
17 depreciation.

18 Your first point in paragraph 33 is obsol-
19 escence increases and correspondingly reduces the useful
20 life of the asset. Undoubtedly obsolescence is a factor
21 but I would have thought that it is taken care of by
22 our present system and needs no more provision in
23 order to take care of it.

24 MR. FOWLER: I think it is perfectly true
25 that the present scale of allowances appears to be
26 pretty adequate in relation to the useful life of
27 assets that are concerned, and to the extent that it
28 goes a little beyond this. There is an incentive there,
29 but if in faster growth you want to have shorter life
30 of these assets, if the obsolescence factor ought to



1 be faster, then whatever incentive you may have in the
2 present system will disappear.

3 THE CHAIRMAN: One country went to 100 per
4 cent and then reversed it because it found too great
5 incentives because people were buying assets too fast.

6 MR. FOWLER: I do not know if it arises
7 in this. Mr. Hall has something to say.

8 MR. HALL: I think the pulp and paper in-
9 dustry is in a peculiar position with respect to this
10 one point, because the rates which have been taken many
11 times up until this very year I think have just been
12 barely adequate in use of assets. I think the pulp and
13 paper -- we are instead being allowed the rates of
14 depreciation. We were allowed 10 per cent of diminishing
15 balance with all our assets lumped together. This,
16 for most companies, seem to be running out at something
17 like 4 per cent of the undepreciated book value, and
18 I think this is enough for replacement.

19 January 1st of this year, the regulations
20 were changed so this industry is now on the same basis
21 as other industries. I think it is not a historical
22 case.

23 COMMISSIONER GRANT: Would your industry
24 be inclined to accelerate this actual depreciation be-
25 cause of your longer working week? The pulp and paper
26 industry does work on a 7-day week.

27 MR. HALL: In some parts of the country but
28 it is not universal.

29 THE CHAIRMAN: I think it is adequate.

30 MR. HALL: Yes. I thoroughly subscribe to



1 this, that a higher level would tend to make one change
2 more quickly and keep more up to date. Certainly
3 the present levels are quite adequate.

4 THE CHAIRMAN: Paragraph 34. You speak of
5 anti-depression device. Surely if it is going to be
6 used for this purpose -- I think Mr. Fowler referred
7 to this in his remarks, moving in both directions,
8 companies that have tried to do this. It is easy to
9 go up but very difficult to go down.

10 In fact, I think in at least one case they
11 had come up. This is anti-reciprocal and considered it
12 as growth because of the difficulty of moving it down.
13 Industry objects to not having a long-term commitment.
14 They say they cannot plan properly. I would be very
15 dubious whether this is a good device, but it may be.

16 MR. FOWLER: I do not think there is much
17 doubt that increased capital cost allowances will offer
18 stimulants. I think in our industry you only have to
19 look at the history of the growth in the United States
20 and this was as a result of total depreciation arrange-
21 ments during the Korean War Period and shortly there-
22 after.

23 I think you are right that once you grant
24 a capital cost allowance nobody likes to see it cut
25 back. It certainly is much easier to use it in the
26 direction of a stimulant of economy rather than on the
27 side of strength of economy. We believe that the
28 need to-day is stimulation and this is one device that
29 could be used.

30 THE CHAIRMAN: How forward should we go. If



1 one allowed everybody to write off equipment in the
2 year of purchase -- that has been done -- one might say
3 the cost of that is very little. That is not, in fact,
4 true. The interest of money that is not otherwise
5 received, the costs may be very severe. To what extent
6 that affects decisions.

7 When we ask questions as to whether many
8 Government funds are well spent in this direction or
9 wouldn't it be better spent in cutting our rates, most
10 people are inclined to prefer cutting rates.

11 Then, of course, the question I am really
12 getting at is, when an increased rate of depreciation
13 stays for a period of time, does it have the incentive
14 effect that a new higher rate of depreciation does?
15 Doesn't its usefulness wear out over a period of time?
16 If you need a higher rate, surely the incentive bene-
17 fit disappears.

18 MR. FOWLER: I do not really know the
19 answer to that question.

20 I would suspect if you are in a growing
21 industry or growth industry it does not wear out.
22 Whether it would in a static industry -- you might give
23 the static industry a shot in the arm by it, I don't
24 know.

25 We people in the growth industry as we
26 are, we do not think it will wear out.

27 MR. HALL: It seems to me this will not
28 wear out at all in an industry where there is a lot
29 of technological change whether it is a growth or
30 static industry, because right now I think equipment



1 each year is becoming obsolete on a faster rate. You
2 need incentive to scrap this old equipment and put in
3 new and modern equipment. This is a continuing induce-
4 ment to make off with the old and on with the new.

5 THE CHAIRMAN: I think one must, of course,
6 have most careful regard whether it is advisable for
7 national interest to favour capital for intensive
8 industries when it seems the major economic success
9 by employment.

10 MR. FOWLER: This is a real problem. It
11 seems to me that this whole trend of the modern world
12 is in favour of increased use of capital and that you
13 get your employment or you make your employment arrange-
14 ments in othe ways may in a real sense contribute to
15 the general standard of living. I would, myself, think
16 the end result of this theory you can certainly make
17 work projects.

18 It is an absurd one.

19 THE CHAIRMAN: For intermediate situations
20 which might be useful.

21 COMMISSIONER GRANT: I am under the impression,
22 Mr. Chairman, that most industries that appear before
23 us, in fact almost without exception, have been sat-
24 isfied with their depreciation schedules.

25 Now, if a reduction from the corporate rate
26 is to be considered, I wonder how much the present rates
27 of depreciation have been determined with regard to
28 corporation tax rate. Have you any views on that
29 anybody?

30 MR. FOWLER: I have not, I am sorry to say.



1 Have any of the others?

2 In other words, does this mean, suppose you
3 have a depreciation rate which is reasonably satisfactory
4 to-day. If you move the tax rate down, will it be
5 reasonably satisfactory tomorrow?

6 COMMISSIONER GRANT: No, I am not thinking
7 along that line. If they are satisfied with them to-day,
8 they would be more than satisfied with them if they
9 lower tax rate. The tax flow would increase.

10 What I am thinking is as to whether or not
11 the present schedule of depreciation in the various
12 articles, machinery and so on -- I am wondering if it
13 is based on if it stands on its own feet or if those
14 rates are influenced by the high corporate rate. Are
15 they higher than they would be if the corporate rate
16 is lower.

17 THE CHAIRMAN: I can tell you the answer
18 to that.

19 MR. RANKIN: The answer, of course, in my
20 view is the incentive aspect of the rate is. In lowering
21 the rate of corporate income tax you are reducing the
22 effectiveness of capital cost allowance for the purpose
23 we are talking about.

24 COMMISSIONER PERRY: They should move in
25 reverse directions.

26 MR. RANKIN: Yes.

27 COMMISSIONER PERRY: If there were no cor-
28 porate taxes, we should be arguing for 100 per cent
29 depreciation.

30 MR. RANKIN: You are arguing the opposite



1 way. Corporation tax, if reduced, has not the
2 same need for capital cost allowance to stimulate be-
3 cause there is not the stimulus.

4 COMMISSIONER PERRY: I have one question.
5 Can we take your proposal here as strictly as given?
6 All you are proposing is an increase in the present
7 rates of capital cost allowance. You are not thinking
8 of investment allowance, initial allowance?

9 MR. FOWLER: It has not been mentioned at
10 any time I have been discussing corporation -- in other
11 words, as stated as far as I know.

12 THE CHAIRMAN: The next section is on Page
13 17, paragraph 37, implications for Government finance
14 of the proposed tax changes which has been worked out
15 on the accompanying schedule and which is reasonably
16 clear.

17 COMMISSIONER PERRY: One point I would like
18 to raise, and that is whether the witnesses have
19 thought of the position where the Government might
20 attempt to immediately replace the revenue lost from
21 corporation tax reduction by ~~increases~~ increases in other taxes.
22 Or coming more directly to my point, doesn't your
23 proposal here envisage that no offsetting attempt is
24 made to reduce the amount of Government deficit to the
25 extent it is although you would lose your economic
26 stimulation.

27 MR. FOWLER: Yes. We do say that we get
28 stimulation. We get back at least this amount and
29 maybe more. It is perfectly true. In fact, this is a
30 stimulation. As we people create that stimulation and



1 do things which are working in the opposite direction,
2 you will cancel it out.

--



1 THE CHAIRMAN: I am interested to see that
2 you have made a calculation as to the relationship of
3 the tax loss and the G.N.P. I do not have any more
4 comments on that but to say that our staff are also
5 looking at this.

6 MR. FOWLER: We made a calculation. We
7 do not get very precise about it, I must say. We did
8 quite a lot of work on this, but this is the best we
9 can come forward with.

10 THE CHAIRMAN: From my point of view it
11 will serve as a check on what we are going to get our-
12 selves. We are very glad to have it. Thank you.

13 I am moving on to page 21. Is there anything
14 before that?

15 This deals with the future emphasis on the
16 sources of tax revenue. You suggest the possibility
17 of widening the base for sales tax, and of course I
18 think that must be true throughout. One must always have
19 regard to the width of the base of all taxes, although
20 I point out to you that some of your recommendations
21 narrow the base in respect of corporation taxes, par-
22 ticularly those of increasing depreciation, because
23 one reduces income by that and accordingly your base
24 is reduced. I think we must continually have regard
25 to the size of the base in all matters of taxation.

26 You speak to this and at the same time you
27 object, and I see your reasons very clearly. There is
28 the tax on construction materials and production machinery
29 which is, as you say, a tax on tax -- or at least it
30 is that the products are taxed twice. You are not in-



1 cluding construction materials used in housing, I pre-
2 sume, in that? You are sticking to construction materials
3 as used for production facilities?

4 MR. FOWLER: This was what we had in mind.
5 We are not dealing one way or the other with the construction
6 materials in housing. This question of housing policy
7 is in a totally different field.

8 THE CHAIRMAN: I did not think you restricted
9 your submission when I listened to it.

10 MR. FOWLER: I did not mention it as such,
11 but I was thinking particularly of the construction of
12 production facilities.

13 COMMISSIONER WALLS: I was wondering first
14 of all, in fact I was rather intrigued as to your
15 advocacy for increased use of sales tax to compensate
16 for the other tax concessions you have asked for -- at
17 least to some extent to compensate for them. Does it
18 have any bearing on the fact that your industry really
19 pays a relatively small percentage of the present sales
20 tax?

21 First of all, most of the materials that
22 you use are in the production of paper and are free
23 and naturally your exports in line with other exports
24 are tax free -- and that is a very considerable part
25 of your business.

26 Then your domestic newsprint is exempt be-
27 cause of its end use in newspaper. So actually your
28 industry right now pays a relatively small percentage
29 in comparison with other industries of sales tax.

30 MR. FOWLER: It is a perfectly fair question.



1 Mr. Walls, and it is always difficult to know whether
2 people are motivated by their particular situation in
3 which they find themselves.

4 I would say that in the production of this
5 brief this line of questioning did not occur. People
6 were trying to take a look at it and say: "First of all,
7 we are not advocating increased sales tax, but if you
8 must do it, this is the better place to look than to-
9 wards other types of taxes that are available." We
10 think you would be better not to make any compensating
11 change.

12 But we are open to this charge, you are
13 quite right, that we are not very large payers of sales
14 tax for one reason or another and therefore it could be
15 said that this is therefore not a sincere recommendation.
16 At least, it is not a very hurtful recommendation for us
17 to make. I do not believe it was made for this reason,
18 but people may not believe me.

19 MR. HALL: Mr. Fowler, I think it would be
20 quite fair to say that in our total discussion in
21 committee on this subject this was never raised and the
22 real comparison was against the European situation. We
23 were looking at the European value-added tax and what
24 they seem to have accomplished -- what they looked as
25 though they were accomplishing.

26 COMMISSIONER WALLS: As regards that European
27 value-added tax, I was rather surprised that you re-
28 commended that and yet wanted the tax moved
29 forward, because, as I understand the value-added tax,
30 where it is used to any considerable extent is at the



1 manufacturer's level and at the wholesale level. Only
2 in relatively few places is it ever used at the retail
3 level.

4 As I understand it you want it moved forward
5 from the manufacturer's level.

6 Is it not a fact that what you are really
7 asking for is a single stage tax moved forward as
8 close to the retail level as possible?

9 MR. FOWLER: I think this is correct. By
10 using the phrase "value-added" we may not be strictly
11 asking for all the features of the full European model
12 of value-added tax. I think the way you put it is
13 correct.

14 I do know Mr. Hall's point is a valid one,
15 that when we were turning toward the recommendation for
16 sales tax we were not in fact saying that this is some-
17 thing that is not going to hurt us very much, but
18 were looking around to other experiences throughout the
19 world which seemed to have worked rather well.

20 THE CHAIRMAN: Most industries do not pay
21 sales tax; they collect sales tax. It is a tax on the
22 consumer.

23 COMMISSIONER WALLS: That sort of leads into
24 the same question in regard to your objection to the
25 tax on machinery of production, because if the eventual
26 consumer pays it -- he does pay all taxes, I believe --
27 then is it going to make any difference to him whether
28 he pays it through that medium or through any other
29 medium? I know you are going to say it does affect us
30 with regard to exports.



1 COMMISSIONER BEAUVAIS: These export countries
2 in Europe all charge sales tax on machinery of production
3 without any adverse effect on the competitiveness in
4 the world market.

5 MR. RANKIN: Take the Swedish example. They
6 are just in the process of changing it in line with
7 G.C.N. This is an anomaly, I believe, is recognized as
8 such, and the people who are doing it, from information
9 we have, are stepping back into line with our recommend-
10 ations.

11 COMMISSIONER WALLS: I understood that when
12 the Swedes were moving forward from the present retail
13 tax to the value-added tax they were not going to make any
14 change insofar as machinery for production is concern-
15 ed.

16 MR. RANKIN: There is a strong movement in
17 Sweden to get that changed.

18 COMMISSIONER WALLS: I know there is ^{such} a strong
19 movement. I understand.

20 There is one other point. You objected to
21 the tax on building materials. Do you know of any case
22 within your industry where the tax on building materials
23 has been a deciding factor as to whether you built a
24 plant or not?

25 MR. FOWLER: It has not been there for very
26 long; it is only a matter of a few months. Prior to this
27 it was exempt. I do not think we could give you absolute
28 proof of this, nor, if I had them, would I be able to
29 name the names; but I will say that I have heard frequent
30 statements of people who said: "Well, we have abandoned



1 construction of an idea we had which we are not going to
2 do now." Whether it was a good idea or whether it would
3 have come about, I cannot guarantee to say. You cannot
4 prove it absolutely, but I know that there are one or
5 two projects which were pretty well along at the time
6 of June. They are not finally abandoned, but they have
7 not gone forward yet and there is talk that they may
8 not because of this tax.

9 COMMISSIONER WALLS: I have just one more
10 question. It is entirely speculative on your part that
11 some of the tax concessions you have asked for will in-
12 crease the gross national product by 5 per cent. If
13 it does not, then it would throw the weight on to sales
14 tax. That roughly would make an increase of one-third
15 in the amount of sales tax. Even if you move the tax
16 forward, it would mean a sales tax of about 10 per
17 cent for the Federal Government plus 5 per cent for
18 the Provincial Government.

19 Do you think that such an increase of tax
20 would be acceptable to the consumers in Canada -- 15
21 per cent at retail level?

22 MR. FOWLER: Of course, our first suggestion,
23 which I tried to amplify earlier, was that if the tax
24 reduction method does not work, then we are going to have
25 bigger deficits and we are going to have to continue
26 deficits, and we can carry deficits for some time.

27 In other words I do not think that in the
28 circumstances of your assumptions that we try this
29 tax reduction, if it does not produce the 5 per cent --
30 which we think it will -- we therefore do not get the



1 economy going. We would have to then contemplate taking
2 up the full reduction ~~taxes~~ by an increase in the sales
3 tax. I think that we have got to find some other way
4 to get the economy going.

5 COMMISSIONER WALLS: Well, that does not
6 quite answer my question.

7 THE CHAIRMAN: Mr. Fowler might have replied,
8 I think perhaps, that he also recommended that it be on
9 a wider base.

10 MR. FOWLER: That is right, and Mr. Hall just
11 mentioned this to me now. It is probable that we would
12 not have to take it all up at the present rate.

13 THE CHAIRMAN: What I would like to know,
14 Mr. Fowler, is just how serious is the tax on production
15 machinery? It is very easy to understand the principle.
16 Certainly it has got to be taxed. Is it a matter of sign-
17 ificance what ~~it is~~ going to add to the cost of your
18 productions? Is it going to add enough to make any
19 difference as to whether they are profitable in the export
20 market or whether they are not profitable in the export
21 market?

22 MR. FOWLER: Well, I think there are two
23 aspects to this. The first one is the question of the
24 effect of the tax itself on the undertaking of the new
25 venture. That is one thing.

26 I have heard of various people who have said:
27 "I had a venture that I was going to do which costs
28 so much money. This tax is going to mean an extra
29 4½ million dollars for me. It may make the difference
30 between my going ahead with it or not."



1 But that figure is probably not too bad.
2 With all of the major pulp and paper mill expansion
3 the tax would amount to something like an extra \$5
4 million in capital. This is to the order of a 10 per
5 cent increase in whatever goes into your price from your
6 capital investment.

7 This is a high capital investive industry
8 and therefore the proportion that charges into the price
9 is going to be higher than perhaps in most. Whether
10 this will be significant in keeping us out of the
11 markets or making it completely impossible for us to
12 try to market or not, I do not know.

13 MR. HALL: I am sure it will stop a lot of
14 ventures, because most people have some criterion. It
15 differs from company to company as to the percentage
16 of return they are prepared to accept.

17 If you add 10 per cent to the capital cost
18 and at the same time increase your operating cost by
19 the charges associated with capital, then you have prob-
20 ably come to a stage where your return on investment
21 is decreased a minimum of 10 per cent and probably
22 a maximum of 20 per cent, as compared to what would
23 happen if this had not occurred.

24 It is enough to kill many projects, aside
25 from ones where there may be a certain amount of equity
26 capital available. If you take your \$50 million new
27 mill, it may be possible to raise a certain amount of
28 money, but \$5 million more may just be impossible.

29 MR. FOWLER: I think the Chairman's question
30 was not directed so much towards this point but more



1 to the question of whether, supposing you do go ahead
2 with the thing, and, having paid this \$5 million in
3 construction materials, what effect does this have on
4 your consumption? Will it prevent you getting into
5 markets which you are now in, or will it be too unprofit-
6 able to stay?

7 THE CHAIRMAN: Directing my remarks to export
8 of materials particularly.

9 MR. HALL: And assuming you have made the
10 investment?

11 THE CHAIRMAN: Yes. Assuming even, if you
12 like, that you base your cost on a basis of replacement.
13 I do not know whether you do or not, but it would be a
14 logical way to do it in your industry.

15 MR. HALL: Once you have made the investment
16 the charges associated with capital are relatively
17 fixed and you have to compete with whatever you find
18 in the world.

19 THE CHAIRMAN: What I want to know is, because
20 of this tax would a ton of paper cost 2 cents more or
21 \$2.00 more?

22 MR. HALL: If you take the mill Mr. Fowler
23 was suggesting which might cost \$50 million, this would
24 produce 200,000 tons a year of pulp. If you take your
25 \$5 million extra capital cost and apply 10 per cent
26 depreciation, it is \$500,000.00, so it is \$2.50 a ton of
27 pulp.

28 THE CHAIRMAN: Thank you very much.

29 COMMISSIONER GRANT: That is assuming that
30 sales tax is operative below \$50 million on cost?



1 MR. HALL: Yes.

2 COMMISSIONER GRANT: Leaving out sites and
3 wharves and improvements

4 MR. RANKIN: The secondary effect of the
5 sales tax on construction is very difficult to estimate
6 and it is recognized as being very severe. Everything
7 we buy which is pyramided does not just occur once.
8 Everything from our suppliers would be going through the
9 same experience. There our costs would be increased.
10 Their suppliers in turn would be going through the
11 same experience. Once you put pyramiding into a sales
12 tax system it is not just a one turn-over affair.

13 It is not possible to measure right now
14 the effect. It would have to be a very arbitrary assumption
15 to do so. But it is a great deal further affected
16 than just the initial impact.

17 THE CHAIRMAN: If you gentlemen would care
18 to amplify what you have had to say with figures, I
19 would be very glad to look at them. I have got an idea
20 of the significance from Mr. Hall's statement, but Mr.
21 Hall might care to define the statement, I do not know.
22 It is a very rough one, I think.

23 MR. HALL: Yes, it was.

24 COMMISSIONER GRANT: Is it not a fact that
25 the recent change in the Sales Tax Act by improving
26 this sales tax on machinery used in production on building
27 materials is really a re-imposition of the tax that
28 was in force and was removed around 1944?

29 MR. FOWLER: I do not know this history.
30 Is this true?



1 MR. RANKIN: That is true.

2 COMMISSIONER GRANT: Of course at a different
3 rate than it is now. But the principle was there and
4 the tax was in force. It was removed, I should imagine,
5 as a post-war inducement and a concession to industry
6 to bring their machinery back into full operation where-
7 as they had been deprived of new machinery during the
8 war years and had to get along with repairs and so on.

9 This was an inducement to industry to tool
10 up again.

11 It was removed too with housing. We had
12 a great housing problem in 1945 to 1955 and so on. We
13 had to get the housing and therefore it was removed
14 from building materials for this same purpose.

15 But is there not the distinct possibility
16 that industry has regained its position to the extent
17 that it can absorb this tax now and take it in its
18 stride?

19 MR. FOWLER: I think, Mr. Grant, by all
20 means let us look at history. You have to record changes
21 from time to time. But I think this is the whole thing
22 we are trying to say -- that now is the time when we
23 ought to tool up again and do a lot more in terms of
24 speeding up this economy than we are doing.

25 -----
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27
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1 The move to put this particular tax as it
2 was really taken off originally is a true enough thing.
3 We better tool up and take it off again.

4 COMMISSIONER PERRY: It has been astonishing
5 that nobody has looked that up.

6 I have it but I was around when it was pre-
7 pared.

8 I am not sure what stimulus to export industries
9 was mentioned in the Budget Speech and did not have
10 anything to do with tooling up after the War.

11 MR. FOWLER: We will look it up and we will
12 send it in if we find it.

13 COMMISSIONER PERRY: This does concern
14 economists who examine the massive changes from one
15 kind of tax to another, particularly from corporation
16 profit tax to other kinds of taxes. What they are
17 concerned with is this, that unless you get equally
18 offsetting changes in price that you could end up
19 damaging your economy by a change of this kind and part-
20 icularly your export industries.

21 In other words, if your suggestion of red-
22 ucing the corporation profit tax were followed and if
23 as a result of losses of \$200 million or \$300 million
24 of revenue, the same amount of revenue were put on
25 goods as an indirect tax, this almost inevitably is
26 going to work into your economy as increased cost be-
27 cause it increases the cost of revenue and wages go
28 up.

29 Unless your corporation profit tax is ref-
30 lected in reduction of prices corresponding to what



1 happens -- what you put on when you put on indirect tax,
2 you are really worse off competitively than you were
3 before the change.

4 What really bothers economists, they do not
5 think corporate prices would come down to reflect the
6 reduction in corporation profit tax.

7 MR. FOWLER:: I think, Commissioner Perry,
8 I see your point. I do not know how to answer because
9 it is a complicated economic argument.

10 MR. HAVILAND: The tendency of a fully-
11 employed economy in the past, and providing expenditures
12 are kept within check, to produce a balance of surplus
13 budget. The increase in the production that would
14 result in the increase in capacity that is mentioned
15 may in fact end up with the taxation being a lower
16 percentage of gross national product rather than higher.

17 Although this is complex, all these relation-
18 ships if I have understood your point -- economists
19 themselves could have answers to the problem that they
20 have raised.

21 COMMISSIONER PERRY: We listened to a whole
22 day of them discussing this and they did not have an
23 answer.

24 I follow you on your comment. It is not
25 quite the point I was making.

26 I was simply looking at the corporate struct-
27 ure as an operating concern producing goods at a price
28 reflecting cost, which it must incur. If those costs
29 are increased through the imposition of new taxes
30 which have the effect of raising costs, their prices



1 must go up.

2 This is going to be an additional price unless
3 the prices have gone down correspondingly to reflect
4 the reduction in corporate profits. It is not really
5 very complicated. It is very simple.

6 MR. RANKIN: We did consider this when
7 we were making this recommendation. The central point
8 we were trying to visualize a perfect tax system.
9 With the initial recommendation we believe that we
10 have drifted into certain aspects of taxation which re-
11 tard growth. As to how you obtain tax revenue in prin-
12 ciple disregarding our present deficit budget position,
13 the key factor is level of Government expenditure, and
14 we cannot ignore this factor when you are moving into
15 the realm of which you are speaking.

16 Quite obviously, from a purely abstract
17 point of view, there must be a optimum level of expenditure.
18 How you measure this, we have not been able to arrive
19 at any tool. We are recommending that the electrode
20 system of taxation should be in existence so the
21 electrode can come closer to measuring the impact as
22 they are at the present. The alternatives increase per-
23 sonal income tax or increase sales tax.

24 From a practical point of view, we put
25 forward a question on increased sales tax.

26 COMMISSIONER PERRY: Let us get the corporation
27 profits down and have some indirect tax and we are done
28 with the problem.

29 MR. GIBB: Commissioner Perry, I think our
30 position is not to take off the corporation tax and



1 replace it with another tax.

2 COMMISSIONER PERRY: I agree with that.

3 MR. GIBB: You may just take from Peter to
4 pay Paul. I think you can argue that revenues tend to
5 rise in relation to growth of the economy. That is
6 the increasing number of people that produce or buy and
7 the effect on the increasing prices on a per capita
8 productivity basis.

9 The expenditures under our system, and this
10 is an over-simplification, they tend to rise on a
11 per capita basis, only we have expenditures geared to
12 the number of people in a growing economy and we must
13 assume a growing economy. You can argue on rate of
14 growth. The basis of our argument is if we cut this
15 tax and if it does achieve an accelerated rate of growth,
16 this will recapture through that relation between
17 revenue and expenditure a good part of the initial loss
18 of revenue. If expenditures are not increased any
19 more than their normal rate, that is per capita rate,
20 sooner or later you will come into bounds.

21 COMMISSIONER PERRY: I am not on the same
22 wave length. I was talking relative benefits on var-
23 ious kinds of taxes. One must consider another kind
24 of tax is going to have some effect on cost, and you
25 do not get rid of your problem by saying let us drop
26 this tax and have another one.

27 MR. HALL: I would like to make a comment
28 because I think I am on your wave length exactly on
29 this.

30 This has been the cause of some discussion



1 inside our committee. The official view of the committee
2 is that such decline in taxation would partially decrease
3 price and personally it is my view that with the except-
4 ion of international commodities that all of these will
5 end up in the form of decreased prices.

6 I think the competitive situation is such
7 that all my competitors, at least, are always looking
8 for places to invest in and they have a certain fixed
9 return which would promote them into investing them.

10 If the people who get this reduced taxation
11 are silly enough for a period to let the prices stay
12 up quite high and take this in the form of increased
13 profits, they are breeding a new lot of competitors that
14 are not looking at it that way.

15 THE CHAIRMAN: This has been an interesting
16 morning indeed. We thank you very much indeed. We
17 certainly will continue our examination of this matter.
18 We would be delighted to have your discussions.

19 MR. BENNETT: May I enter into the record,
20 as Exhibit 268 the Brief from the West Kootenay
21 Power and Light Company, Trail, B.C.

22
23 EXHIBIT NO. 268: Brief from West Kootenay
24 Power and Light Company,
Trail, B.C.

25 THE CHAIRMAN: Stand over until 9:30 to-
26 morrow morning.

27
28 ---Whereupon the hearing adjourned at 12:55 A.M.
29
30



THE ROYAL COMMISSION ON TAXATION

Hearing held in the Centre Court
Room, Exchequer Court of Canada,
Supreme Court Building, Wellington
Street, Ottawa, on Thursday, the
28th day of November, 1963.

COMMISSION:

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S. M. MILNE

MR. CHARLES WALLS

LEGAL COUNSEL

MR. J. L. STEWART

RESEARCH DIRECTOR

PROF. D. G. HARTLE

SECRETARY

MR. G. L. BENNETT

- - - - -



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* * * * *



1 ---Upon commencing at 9:30 A.M.

2 COMMISSIONER PERRY: Mr. Secretary, will
3 you please get us under way for the day.

4 MR. BENNETT: Commissioner Perry, Commiss-
5 ioners, this morning we have before us the Canadian
6 Automotive Wholesalers' and Manufacturers' Association.

7 Mr. Thomas H. Whellans, Executive-Vice-
8 President is here representing the Association together
9 with the legal counsel Mr. S. F. M. Wotherspoon, Q.C.
10 and his associate Mr. Gibson.

11 Mr. Wotherspoon will be speaking to the
12 brief which I now enter into the record as Exhibit 269.

13 ---EXHIBIT NO. 269: Brief of Automotive Wholesalers
14 and Manufacturers Association.

15
16 SUBMISSION OF

17 CANADIAN AUTOMOTIVE WHOLESALERS' and
18 MANUFACTURERS' ASSOCIATION

19 Appearances: S. F. M. WOTHERSPOON, Q.C.

20 F. E. GIBSON

21 THOMAS H. WHELLANS
22

23 COMMISSIONER PERRY: Good morning gentlemen.
24 I should explain that the Chairman, Mr. Carter, was
25 required to go to Toronto to-day and therefore is not
26 present and has asked me to act on his behalf.

27 I welcome you to our hearings. We have
28 all read the brief as you can imagine. We do give
29 witnesses an opportunity to make any supplemental
30 statements at the outset if you wish to do so.



1 Would you please indicate also at this
2 stage who will be your principal spokesman.

3 MR. WOTHERSPOON: I think I would be the
4 principal spokesman as to matters on facts.

5 COMMISSIONER PERRY: Would you care to
6 say anything at this stage, Mr. Wotherspoon?

7 MR. WOTHERSPOON: Yes, I would.

8 Chairman and Members of the Commission, as
9 pointed out in our brief this association represents
10 a very substantial portion of the manufacturers and
11 wholesalers of automotive products in Canada.

12 The members of this association deal in
13 what is known in the trade as the after-market. That
14 means the market for automotive products after a new car
15 has been delivered, all repair parts and so on.

16 I did not put it in the brief because it is
17 impossible to get an accurate figure. But the approximate
18 figure is the members of the association include 85
19 per cent of all parts manufacturers in the after-market
20 and 80 per cent of all wholesalers in the after-market.

21 In our brief we have now dealt with three
22 problems that affect our members very substantially.
23 The matter of the income tax advantages to the co-ops,
24 exemption from sales tax of automotive parts when based
25 on end use for foreign purposes and sales tax in rel-
26 ation to imports.

27 Just dealing very briefly with the co-op
28 situation. The other brief will demonstrate for you
29 the tremendous growth in co-ops. I refer to the
30 Equitable Foundation brief. It shows 500 per cent in-



1 crease in the past 14 years and the very recent pub-
2 lication on part of agriculture shows they have increased
3 again from 70 million to 71½ million of sales in the
4 past year.

5 Also, about two weeks ago an issue of the
6 Co-operative Consumer pointed out they are planning
7 similar great increases. This did not give very many
8 facts of interest for our submission. But I did note
9 plans for 19 new service stations next year which shows
10 how they are moving in the after-market field. It is
11 readily seen that the co-ops are now big business
12 and becoming big business in the automotive after-market.

13 The members of this association have no
14 objection whatsoever to fair competition from anybody
15 and never complain about it. What they do object to is
16 when a move in the extent of taxes of competing corpor-
17 ations in the same trade depends for the success of
18 one group on advantages given to that group. It is
19 for this reason that we recommend and support, in our
20 briefs, the income tax given to co-ops of special treat-
21 ment should be repealed.

22 Dealing with the matter of sales tax,
23 Mr. Chairman, based on end use. Sales tax, when based
24 on end use, except for a large item which is readily
25 traceable, gives absolutely impossible nightmarish
26 administrative problems so far as the department is
27 concerned and also gives problems to the industry.

28 Those problems in industry, then, tend to
29 create inequities in the conduct of trade and often
30 without commensurate being to the end user.



1 In schedule 3 of the Excise Tax Act there
2 is the exemption of traction engines for foreign pur-
3 poses. This, in the main, means tractors. The members
4 of this association do not object to the farmer being
5 given an exemption for the whole tractor. We look
6 on that as fair. Of course, it is a matter of government
7 policy. The tractor and base use is readily determined.
8 It is very easy to police where that tractor goes. And
9 secondly, traders are on an even basis when dealing
10 with a whole product such as that.

11 However, the schedule then goes on and
12 exempts complete parts of all foregoing. This is where
13 the rub comes.

14 Take for example, the same tractor may
15 be sold for farm purposes and there is also that same
16 tractor is used in many other industrial endeavours,
17 for instance, logging. Every part on the farm tractor
18 is completely interchangeable with the industrial tract-
19 or. When you come into this parts question it is
20 impossible to start tracing all the thousands of parts
21 that go into a piece of equipment of that nature.

22 Some of them are very simple items such
23 as batteries and lamps. You cannot tell where the
24 battery is going to go. We have no way of telling
25 whether it gets installed in that vehicle or some other
26 vehicle.

27 If a vendor has large sales to farmers, then
28 there is a lot of work involved in trying to keep track
29 of what parts go to an exempt user and what parts
30 do not. It becomes an administrative mile-stone to



1 that vendor and also to officials of the department
2 who have to at least try to police the law. Because of
3 these problems the department, as I point out in the
4 brief, found it necessary to work out arbitrary rulings
5 because they could not get an answer to it.

6 Farm implement dealers have now been put
7 on a special basis. The Department makes an arbitrary
8 ruling that 20 per cent of total sales for non-tax
9 exempt use and they pay tax on 20 per cent of what
10 their total sales are. This shows how impossible it
11 is to administer the law the way it is. The result
12 of this is the farm implement dealer is under one of
13 these special rulings and is put in a preferred trading
14 position over the automotive wholesaler and industrial
15 dealer who are selling the same commodities.

16 The farm implement dealer does not have to
17 pay on a per unit basis. This gives him the opportunity
18 to juggle his 20 per cent tax over all items and makes
19 it difficult to compete on the 20 per cent basis. Also
20 the farm implement dealer is free of very costly ad-
21 ministrative problems. He does not have to keep a
22 report of the end use of his product. The automotive
23 dealer does. And again there is inequity between the
24 two trades.

25 Then, also, the farm implement dealer
26 no longer has to finance the payment of sales tax and
27 this is becoming a very substantial item in large
28 organizations.

29 As I explained in some detail, there are
30 no figures that really will bring out the exact amount.



1 But, from the figures available from the Dominion
2 Bureau of Statistics, on the average if this end use
3 of automotive parts as an exemption was abolished each
4 farm operator in the country would only have to pay
5 \$5.51 a year. We submit that this is a very small
6 benefit to the farmer and does not warrant the contin-
7 uance of the costly administrative problem to both the
8 Department of National Revenue and the trade, and also
9 does not warrant to maintain these trading inequities.

10 We submit this exemption on parts should
11 be removed from the schedule of exemptions.

12 Our next point was the matter of sales tax
13 as applicable to imports. Sales tax by nature is in-
14 tended to be neutral as between imported articles and
15 those produced in Canada. It is what I call -- I
16 have no authority for it -- domestic tax.

17 We submit this neutrality does not exist
18 in Canada because of the different bases that are
19 used for the application of the tax and often the im-
20 ported articles are in effect actual subsidies against
21 the Canadian article by the application of this tax.

22 In the example that I set forth on Page
23 7 of our brief, the imported article is given an approx-
24 imate 2 per cent advantage over the domestic article
25 by the application of this supposedly neutral tax.

26 We admit this does not apply in every case,
27 but it is a very serious problem to Canadian manufact-
28 urers of automotive parts for the after-market.

29 The lower the per unit cost of the foreign
30 manufacturer with respect to his warehousing and sales



1 and distribution in domestic cost in comparison to
2 Canadian cost, the greater the problem. If you analyse
3 the fair market value rulings of the Customs Division
4 on which sales tax is then based, you will find that
5 the domestic market price must include the domestic
6 market's portion of these actual costs.

7 In many cases these costs on a per unit
8 basis in the foreign market are a way less than they
9 are in the Canadian market. It is not, then, a comparable
10 figure that is imported, let us say from the States,
11 in order to determine your sales price.

12 An example of it would be a foreign man-
13 ufacturer who is specializing in private brand parts.
14 Any situation such as that, his per unit costs of
15 selling are very low. He has no national advertising
16 at all because he is not actually advertising the
17 product. He is making the product. He has no sales
18 cost. His warehousing costs, when specializing in
19 special brand manufacturer are relatively low because
20 there is a very quick turnover.

21 Secondly, there are never heavy stocks
22 in hand.

23 Also in many cases the distribution
24 costs on a per unit basis would be far less than in
25 Canada because of the compactness of his market down
26 there. The base the tax applies to on his product
27 is relatively much lower. The Canadian manufacturer
28 who is making a nationally advertised product, he
29 has to include all his Canadian advertising in his
30 base plus warehousing and the large distribution



1 costs that you have in Canada because except for per-
2 haps Toronto and Montreal we do not have compact markets
3 compared with countries such as the States.

4 Since drafting our brief, I find that
5 Professor Bladen came to the same conclusion in the
6 report of the Royal Commission on the Automotive Industry,
7 and I have filed with your Secretary copies of the
8 second recommendation of the Commission, and I will
9 refer to this which is at page 60 of the Commission
10 report. The report says:

11 "The Excise Tax Act provides that
12 the base on which the sales tax is ass-
13 essed on motor vehicles in Canada is
14 the manufacturer's price to dealers.

15 For imported vehicles ---"

16 --he is dealing here with new motor cars, not parts ---

17 "---it provides that the base be
18 the "duty paid value", which, in
19 essence, is the manufacturer's price
20 to dealers in the home market plus duty
21 if applicable. The sales tax on ve-
22 hicles produced in Canada is assessed
23 on the costs incurred by the manufact-
24 urer in placing his product in the hands
25 of the dealer in Canada; it would
26 seem reasonable that imported vehicles
27 be taxed at that same level. It might
28 be argued that, in so far as the Can-
29 adian market is concerned, the process
30 of production of imported vehicles has



1 "not really been completed until they
2 are ready for retail distribution in
3 Canada. The importer's price to a
4 dealer in Canada is substantially higher
5 than the manufacturer's price on a
6 similar vehicle to a dealer in the
7 country from which the vehicle is export-
8 ed. It has been determined that the
9 margin of difference usually amounts
10 to about \$250; but it has been as much as
11 \$500 on certain models in the medium-
12 price range. It is my contention that the
13 costs of shipping, advertising, handling
14 and other charges which are incurred
15 in the process of marketing an imported
16 article in Canada are an essential part
17 of the cost of producing an automobile
18 for use in Canada. This pportion of
19 the cost of an imported vehicle should
20 therefore be subject to sales tax. The
21 omission of these costs from the tax
22 base means that, in comparison with
23 dealers who sell Canadian-produced vehicles,
24 those who sell imported vehicles get
25 substantial relief from the Canadian
26 sales tax burden. This reduces the de-
27 gree of tariff protection intended
28 by the legislation against vehicles
29 imported from countries subject to the
30 Most-Favoured-Nation rate of duty, and



1 is the equivalent of a subsidy to the
2 importer on vehicles brought in free of
3 duty under the British Preferential
4 Tariff. In the latter case, the Canadian
5 manufacturer must, in effect, compete
6 against imports which are entitled to
7 freer than free entry.

8 I know of no other country that
9 places domestic manufacturers at a dis-
10 advantage in meeting import competition.
11 The United Kingdom levies its purchase tax
12 on imported goods, as on all goods, on
13 their wholesale value in the United Kingdom.
14 The United States applies its excise
15 tax on all automobiles on the price of
16 the automobile in condition for delivery to
17 the purchaser in the United States."

18 Professor Bladen then sets forth an
19 illustration which is included in this excerpt. He
20 shows that the combined effect of sales and excise tax
21 which was at that time applicable to the vehicle --
22 as a result of his recommendation the excise tax was
23 removed -- was $18\frac{1}{2}$ per cent of domestic manufacturer's
24 price to the dealer; but with an imported vehicle
25 the tax is only 15.3 or 15.7 depending on which entry
26 base it has in the Customs, of the importer's price
27 to the Canadian dealer. So, there is approximately
28 a 3 per cent subsidy given to the imported article.



1 There are various ways in which these prob-
2 lems can be cured. I submit that it is a serious prob-
3 lem. First of all, if Canadian sales tax became a
4 retail sales tax the problem, of course, would be re-
5 moved.

6 Secondly, Professor Bladen in proceeding
7 to deal -- and I am sorry I did not have this reduced,
8 as it only occurred to me after we had had those run
9 off that I might make reference to this; I do not
10 think it is applicable to this trade, but I think it
11 is of interest in dealing with the whole automobile,
12 he recommended that ---

13 COMMISSIONER PERRY: I wonder if you would mind
14 giving the exact page, for the record.

15 MR. WOTHERSPOON: Yes, sir. It is on
16 page 63.

17 He recommended the answer for the whole
18 automobile is the "national" wholesale price. At
19 page 63 on this third recommendation he says:

20 "The Excise Tax Act provides that
21 the sales tax be levied on the man-
22 ufacturer's sale price. Thus, the
23 amount of tax is affected by the
24 method of distribution which prevails
25 in an industry. Where the pattern
26 in a particular industry is one of
27 distribution through a wholesaler or
28 distributor, the tax is based on the
29 manufacturer's price to the wholesaler
30 or distributor. In the automobile



1 "industry the pattern is one of direct
2 sale by the manufacturer to the retail-
3 er or dealer."

4 I point out again he is just dealing with
5 the whole automobile, not with parts.

6 "This tax should surely be mutual
7 as between forms of market organ-
8 ization in different industries.

9 I propose, therefore, that the
10 Excise Tax Act be revised to provide
11 that, for the purpose of computing
12 sales tax on motor vehicles the
13 'sale price' be a 'notional' whole-
14 sale price. This 'notional' whole-
15 sale price would be the manufacturer's
16 sale price to the dealer less an
17 appropriate 'notional' discount. The
18 'notional' discount should be deter-
19 mined having in mind the special
20 conditions of the industry and the
21 costs of distribution assumed by the
22 manufacturer in the absence of a
23 wholesaler or distributor. I believe
24 that 5 per cent off the dealer price
25 would be a reasonable discount for
26 this purpose in the automobile in-
27 dustry."

28 I suggest that this 'notional' wholesale
29 price should be included in a study as to what is the
30 best answer to this problem, but I also suggest that



1 in view of the great number of dissimilar parts in
2 the after-market industry it is doubtful that it would
3 be feasible from a departmental point of view to prod-
4 uce the right amount of discount to get your 'notional'
5 price through a trade such as this.

6 Another method that I understand is being
7 used in Australia is to add a flat predetermined per-
8 centage. I am told theirs is 20 per cent. That is
9 added to the value of duty across the board for the
10 purposes of computing sales tax.

11 While this would appear to answer the prob-
12 lem, it would be a Solomon's ^{decision} ~~decision~~ as to what the per-
13 centage would be, and I cannot conceive of it being
14 a fair percentage in many cases, if you just take an
15 average of that nature.

16 It has also been suggested that the problem
17 be cured by increasing the customs duty. However, this
18 would appear to be completely contrary to GATT and not
19 really usable as an answer in Canada.

20 It has also from time to time been suggested
21 that the cost of insurance and freight should be added
22 to the value for duty. This, I suggest, would only
23 be a partial answer, as this would tend to even up
24 the problem of the subsidy resulting from distribution
25 cost, but would not do anything in connection with
26 warehousing and sales cost from the two countries.

27 The method that appears to our association
28 to be the fairest is that the Act be amended to provide
29 that for the purposes of sales tax the importer be
30 classed as the manufacturer. This could not be done,



1 we submit, just across the board, because there would
2 be many inequalities and the study should be made in
3 particular reference -- I would say a study with
4 departmental problems in mind with help from them as to
5 how they would deal with the small retailer who brings
6 in just a few articles a year; also a person who im-
7 ports something himself, as to how he is to pay sales
8 tax.

9 In our brief we suggest one method by which
10 this could be overcome, but I do submit that it needs
11 a far greater study, particularly in consultation with
12 the officials of the Department of National Revenue.

13 I have one apology to make in that I found
14 a typographical omission in our brief. It is not of
15 consequence, but I thought perhaps I should draw it
16 to your attention. It is on page 7. It is in the
17 example about eight lines down, where the \$20.00 appears
18 in the left-hand column. Beside that it says:

19 "Cost of sales and distribution in
20 Canada and profit thereon."

21 It should be:

22 "Cost of warehousing, sales and
23 distribution,"

24 to correspond with the item above that. I am sorry
25 that such an error occurred.

26 I thank you very much for permitting us
27 to appear before you, and we shall be glad to answer
28 any questions.

29 COMMISSIONER PERRY: Thank you, Mr. Wotherspoon.

30 I would like to know just a little bit more



1 about your association. You mention that the manufact-
2 urers in Canada are members. Does this include the
3 automobile companies as such?

4 MR. WOTHERSPOON: Perhaps Mr. Whellans can
5 give it more accurately. I could give you an answer,
6 but he knows exactly.

7 MR. WHELLANS: Mr. Chairman, no, this does
8 not include the car manufacturers, the vehicle manufact-
9 urers. It includes only parts and garages and manufact-
10 urers that sell to the after-market.

11 COMMISSIONER PERRY: What about an industry like
12 the McKinnon industry in St. Catharines? They manufact-
13 ure mainly for the parent company.

14 MR. WHELLANS: To explain that, in the trade
15 we call that a captive company manufacturing parts
16 for the parent company.

17 COMMISSIONER PERRY: Is there much of a manufact-
18 uring industry as such in the parts business apart from
19 the automobile companies in this country?

20 MR. WHELLANS: Very definitely so. The
21 people whom we represent in a recent survey, that is
22 in 1963, their sales for a twelve-month period amounted
23 to approximately \$300 million.

24 COMMISSIONER PERRY: Yes. I was impressed with
25 the size of the figure all right. I was just wondering
26 how much of this represented the wholesalers and how
27 much the manufacturers.

28 MR. WHELLANS: The wholesaling figure is
29 larger in that wholesalers, of course, buy from other
30 sources. They import some of their products. And accord-



1 ing to the Dominion Bureau of Statistics their sales
2 in 1962 were approximately \$445 million. That is all
3 wholesalers. The wholesalers whom we represent, their
4 sales are approximately \$360 million.

5 COMMISSIONER PERRY: What would be the general
6 proportion of sales in Canada as between goods manufact-
7 ured in Canada and imported goods, imported parts and
8 accessories?

3q9 MR. WHELLANS: Unfortunately, this is a
10 figure that is not readily available. We have been
11 working with the Bureau of Statistics and the Department
12 of Industry to develop a figure of this nature. As
13 yet no one has been able to come up with an accurate
14 figure for the after-market. Imports of automobile
15 parts into Canada over the last twelve months, for
16 all types of trade, have amounted to approximately
17 \$500 million.

18 COMMISSIONER PERRY: Perhaps there is another way
19 of getting at my question, and that is to ask you
20 whether you think of yourself as primarily manufacturers
21 or distributors, when thinking of your tax problems,
22 for example. This is without prejudice to the part of
23 your industry that you put second.

24 MR. WOTHERSPOON: This is one of the problems
25 that Mr. Whellans has. I thought I might answer. Some-
26 times he is put on a tightrope.

27 COMMISSIONER PERRY: Yes, I can imagine.

28 MR. WOTHERSPOON: The association is set
29 up in such a manner that there is equal representation
30 on their board of directors and the president alter-



1 nates between a manufacturer and a wholesaler each
2 year. They try to keep this even balance and bring
3 the two sides together and thrash out the problems
4 to a mutual understanding. In the middle is Mr.
5 Whellans, as I say.

6 COMMISSIONER WALLS: I have just one supple-
7 mentary question to what has been asked there.

8 Does your membership include the manufact-
9 urers of batteries and spark plugs?

10 MR. WOTHERSPOON: Yes.

11 COMMISSIONER PERRY: To go on to the first
12 item raised in the brief, the taxation of co-operatives,
13 you mention in your opening statement that the sales
14 of petroleum and auto accessories through co-operatives
15 have reached \$70 million. These are sales mainly
16 through the producer-type of co-operation, or the retail
17 or consumer co-operative -- or just what?

18 MR. WOTHERSPOON: As I understand it,
19 they are mainly through the retail-consumer type of
20 co-op and, so far as this after-market is concerned,
21 they are starting in that quite heavily in the mid
22 west at the present time.

23 I would not say that they are serious
24 yet in this particular field, but in view of the ex-
25 pansion in general of them and the fact that they are
26 not in this field, and then the tendency to integrate,
27 it would appear that they are going to go more and
28 more into it. This also brings in the fact that you
29 then start running into what are called tide sales
30 at service stations, which freezes out many of the



1 people who would otherwise be competitors. This is a
2 big field which has just recently been investigated
3 by the Combines Commission. There is a 500 page report
4 on it, the gist of which is to say that the tide sales
5 are bad for Canada.

6 You might say the foot is in the door --
7 maybe two feet are in the door -- but the door is not
8 wide open yet in our industry, although it is getting
9 pretty hard pushed.

10 COMMISSIONER PERRY: You refer as your
11 main competitor here to the sales of parts through
12 service stations serving the public at large.

13 MR. WOTHERSPOON: That is right, and start-
14 ing towards wholesale.

15 COMMISSIONER PERRY: It would probably
16 be true that the bulk
17 of the \$70 million would be sales of petroleum and
18 petroleum products, would it not?

19 MR. WOTHERSPOON: Yes, that is my own feel-
20 ing, although I have not been able to find a breakdown
21 of the figures. They are classed together for statistic-
22 al purposes.

23 COMMISSIONER PERRY: As you quite properly
24 say in your brief, we have probably heard more on this
25 subject than anything else. We have had every possible
26 statistic produced to us, each proving conclusively
27 the argument they have advanced.

28 Unless you have anything further to offer
29 on this subject, we will pass on to the sales tax
30 part.



1 MR. WOTHERSPOON: Yes, sir.

2 COMMISSIONER WALLS: In the beginning of the
3 sales tax matter you quote a section of Schedule III.
4 I wondered what particular purpose you had in only quot-
5 ing an excerpt from it. In other words you state:

6 "Traction engines for farm purposes
7 and accessories therefor",
8 when in effect the section not only deals with farm
9 traction engines but also with logging traction engines.

10 Was there any reason why you left out the
11 logging traction engines in dealing with this?

12 MR. WOTHERSPOON: Yes, sir, there was a
13 reason. The budget and the amendment to the Excise
14 Tax Act that were passed in June repealed the logging
15 section.

16 COMMISSIONER WALLS: Did they?

17 MR. WOTHERSPOON: Yes.

18 COMMISSIONER WALLS: Thank you.

19 It seems to me that what you are really
20 asking for here is that, based on your figure of some-
21 thing over \$39 million in farm equipment repair parts,
22 50 per cent of this you estimate will be auto supply
23 parts. I suppose it would be also fair then to assume
24 that 50 per cent of the auto repair parts that are used
25 on the farm equipment would be sold by farm machinery
26 dealers. I think that is just as fair perhaps as
27 the assumptions that you have already used.

28 It would appear to me that you are now on
29 the basis of wanting to take away a concession to one
30 segment of our economy, a tax exemption amounting to



1 \$4,356,000.00 based on your \$39 million sales, only to
2 escape the trouble of having to apply for rebate on
3 total sales effected by your industry to an amount over
4 \$9 million.

5 In other words, the tax that is going to
6 be taken away is 50 per cent of the total sales that
7 would be effected by your industry on which you could
8 get rebate by the process of making application for it.
9 Am I right in that?

10 MR. WOTHERSPOON: Yes, I follow your point.

11 Our problem is not this matter of the exact
12 dollars. It is not a matter of there being one set of
13 dollars on one side of the scale and the other on the
14 other side. There are extra problems that come from
15 this, and in the brief I refer to the fact that an
16 automotive wholesaler has a customer, but when he comes
17 in to buy a battery for his tractor, he either gets
18 that battery less sales tax -- or he will not buy it,
19 of course -- or he has to fill out a certificate.

20 Human nature being what it is, these farmer
21 customers of the automobile wholesalers dislike going
22 through this procedure and being questioned as to what
23 they are going to do with it. So the next time they
24 start buying their automotive parts they are no longer
25 at the automotive wholesaler. They have gone across
26 the street where they can buy the same article with
27 no questions asked at all. You lose a whole customer
28 over these problems. It is not just a question of the
29 dollar tax on the article in question. It is what
30 happens as a result of human nature that causes a great



1 deal of the problem.

2 COMMISSIONER WALLS: But is it not a fact
3 that in the provinces that have a provincial sales tax
4 the same tactic is carried out? The farmer writes
5 an affidavit that he is a bone fide farmer and the prod-
6 uct is going to be used for farming. This is carried
7 out every day and apparently without any great amount
8 of trouble.

9 MR. WOTHERSPOON: Yes, except, as I under-
10 stand it, the farm implement also has the same thing.
11 The result of this is that the farm implement dealer
12 has to be in a different position from the wholesaler
13 in the industrial market.

14 COMMISSIONER WALLS: Would the answer not
15 be for the dealer to require an affidavit for the
16 federal tax the same as he has to for the provincial
17 tax? Then he would not be doing an industry out of
18 almost \$5 million worth of exemptions that they have
19 at the present time.

20 MR. WOTHERSPOON: That is quite true. That
21 would be the fair way. I am not in a position to quote
22 the problems that the Department have, but I have had
23 many discussions with officials down there and I suggested
24 even the shortest inquiry from the Department. You
25 will find it is absolutely impossible for them to do
26 this from an administrative point of view. They just
27 do not have the staff.

28 I have no method of estimating the cost
29 even of carrying on the existing procedure, but I do
30 know the feeling of the Department is that it is very



1 high. This is why I suggest that you can't just put
2 the tax savings on one and the tax implementation on
3 the other and say that this brings up the answer to
4 this particular problem. It is all the offshoots
5 that make this a much greater problem than the number
6 of dollars involved.

7 My reason for these examples was that I
8 wanted to see whether this was something that would be
9 serious to the farmer.

10 COMMISSIONER WALLS: About the only thing
11 where there really could be a duplication of use, I
12 would think, would be on the batteries and spark plugs.
13 Would it not be unfair because of these two products
14 to then make taxable all the farm implement parts,
15 because in their figure of \$39 million you must remember
16 are all the pieces for plows and drills and other
17 implements -- repair parts.

18 -----



1 MR. WOTHERSPOON: We are only suggesting
2 automotive parts. We are not dealing with the others.

3 COMMISSIONER WALLS: Your figures of dealing
4 with \$39 million are out of all relationship because
5 the way you have^{it} in here is that you would remove it
6 from all parts and accessories. Am I not correct in that? Have
7 I misunderstood you?

8 MR. WOTHERSPOON: Perhaps my example was
9 not well put. We are only dealing with traction engines.
10 There are other suggestions that look after the motor
11 and the plows. We are not dealing with those in any
12 way at all.

13 The figures available from the Dominion
14 Bureau of Statistics -- certain things are grouped
15 together to try to show what the maximum amount is that
16 it might cost a farmer. I do not think it is going to
17 cost him \$5.51 a year. I think it is going to be some-
18 thing much less than that. I did not have figures to
19 suggest this in the brief.

20 COMMISSIONER WALLS: So thirty-nine million
21 odd was the estimate based on Dominion Bureau of Stat-
22 istic figures of the entire repair parts industry,
23 and 50 per cent of that you estimate to be the automobile
24 repair parts.

25 MR. WOTHERSPOON: I should not split the
26 thirty-nine up.

27 COMMISSIONER WALLS: That is right.

28 MR. WOTHERSPOON: I pointed out that this
29 represented sales and repair parts generally which in-
30 cludes a large proportion of non-automotive parts I



1 have to break down.

2 COMMISSIONER WALLS: Some other parts of
3 your brief estimate that at 50 per cent.

4 COMMISSIONER PERRY: At the top of page 6.
5 The next question appears to be answered
6 as to what the \$5.51 represents. I see it says:

7 "Assumed that one-half of the total
8 cost of these repair parts represented
9 automotive parts."

10 In other words, the \$5.51 is based on the
11 assumption that one-half of thirty-nine million is
12 from automobile parts.

13 MR. WOTHERSPOON: This one-half came from a
14 pretty broad assumption. There would be some relation
15 in the sale of parts according to what was the sale
16 of new vehicles.

17 COMMISSIONER PERRY: You can call that
18 custom.

19 MR. WOTHERSPOON: They are the only figures
20 I could find that would give any idea of what this
21 really would amount to. What would you take away from
22 the farmer. You realize if it is a substantial amount
23 from the farmer, it is not practical to take it away.
24 We submit it is a small item.

25 May I refer back to your comment that it
26 would be batteries and spark plugs in the main, sir.

27 COMMISSIONER WALLS: Yes.

28 MR. WOTHERSPOON: As I mentioned in my
29 oral remarks there is also the industrial tractor which
30 is the identical vehicle. Every single piece of that



1 is interchangeable. You have that problem as well as
2 the one in the field of the after-market and the auto-
3 motive wholesaler. So far as they are concerned, there
4 are many other parts that are interchangeable, partic-
5 ularly for example -- I am not too knowledgable on it --
6 a Massey-Ferguson tractor may have an interchangeable
7 engine with something else depending on who made
8 it, who actually made the engine.

9 At one time there was a Chrysler engine in-
10 stalled in certain of these tractors. Insofar as it
11 is a Chrysler engine you have a great many parts which
12 are interchangeable with a truck engine.

13 COMMISSIONER WALLS: This applies throughout
14 the entire Excise Tax Act. It depends on the use.
15 list of
16 All through the/exemption there are exemptions for
17 use. The problem you are facing is a problem faced on
18 all products.

19 I am not saying it should not be corrected.
20 I am pointing it out. For instance irrigation equipment
21 is exempt for farmers but not if used for carrying
22 water on a golf course.

23 There are many cases where specific use is mentioned in
24 the Excise Tax Regulations.

25 MR. WOTHERSPOON: I agree with this and
26 again I come back to the question of the difference
27 between the exemption of a whole article and the exemption
28 of its parts in the after-market. This is not up to
29 me to make any representation on, but I would suggest
30 if the Department of National Revenue were making a



1 representation to you they would ask you to strike out
2 parts in every exemption as being an extremely costly
3 item for collection out of all proportion to advantage
4 given.

5 We are only interested in this one particular
6 field and we felt it would be beyond us to make a
7 suggestion. We are not suggesting that the whole
8 tractor be removed from the exemption. It is only the
9 matter of the parts for the after-market.

10 COMMISSIONER PERRY: This is a slightly
11 different aspect of this. Is there any difficulty
12 in distinguishing between implement dealers and automobile
13 parts dealers. What is the rule that is followed
14 here, I wonder?

15 MR. WOTHERSPOON: As far as I can make out,
16 it is not really a rule. It is a feeling that the
17 Department gets. I do not think they have a ruling.
18 The percentages vary from one to the other. They sit
19 down and negotiate a percentage.

20 COMMISSIONER PERRY: You could have an aut-
21 omobile dealer selling farm implements.

22 MR. WOTHERSPOON: I believe these rulings
23 are not available unless you are in the stage of 80 per
24 cent of your business being on farm implements. I do
25 not think there is any fixed portion.

26 MR. WHELLANS: I think a further explanation
27 would be an implement dealer represents an implement
28 manufacturer. There is a direct connection here. The
29 automotive parts distributor, which we represent, is
30 an independent firm and buys its supplies from many



1 sources.

2 COMMISSIONER PERRY: Do I take it generally,
3 then, that if you are in the 80 per cent neighbourhood
4 that the deal for all people in that range is the 20
5 per cent, that only 20 per cent of sales are taxable
6 or is this variable?

7 MR. WOTHERSPOON: A 20 per cent is variable.
8 I am not sure within what range. I think it ranges
9 from the type 16, 17 up to 22, 23. 20 is, I believe,
10 about an average.

11 The mechanics of this is this, because of
12 other manufacturer's level, not dealer's manufacturer --
13 it is the manufacturer who collects the taxes.

14 COMMISSIONER PERRY: The manufacturer
15 has a different ratio within this range for each one
16 of his distributors or purchasers.

17 MR. WOTHERSPOON: That is quite possible.

18 COMMISSIONER WALLS: I think that your figure
19 of \$5.51 is really a little low on several factors.
20 But, one of the main ones ^{that} ~~being~~ you took the figure
21 of 480 thousand farmers in 1961. If you study the
22 complete statistics you would find that
23 120,000 of these are listed as non-commercial farmers,
24 ^{mostly} that is, people/with small plots of grounds whose
25 earnings were less than \$1,200.00 a year.

26 For the most part, these people are not users
27 of power machinery. So, the actual farmer who would
28 use it would naturally be limited to that much less
29 and result in a higher average per capita loss.

30 MR. WOTHERSPOON: I do not suggest for a



1 moment that my \$5.51 is an accurate figure. All it is
2 was just the range.

3 COMMISSIONER PERRY: I think we accept your
4 figure in the spirit in which it was offered.

5 COMMISSIONER GRANT: The suggested change,
6 Mr. Wotherspoon, to correct this inequity which you
7 point out, I believe is contained in paragraph 18 in
8 which you suggest that the words "and complete parts
9 of all the foregoing" be deleted.

10 MR. WOTHERSPOON: Yes.

11 COMMISSIONER GRANT: May we analyse that
12 change for a moment. That would then read "traction
13 engines for farm purposes and accessories therefor and
14 materials to be used exclusively in the manufacture
15 thereof."

16 How would you distinguish between accessories
17 and complete parts.

18 MR. WOTHERSPOON: This of course often comes
19 down, I submit, to the method of it. It is actually
20 operated in the Department. You have a long pattern
21 that develops over the years as the interpretation,
22 never submitted to court at all. The actual article
23 itself being classed as an accessory such as a rear
24 view mirror. That technically, in the trade, is still
25 called an accessory but it is actually part of the
26 machine from the point of view of the purchaser. This
27 is the spirit of which I understand the Department in-
28 terprets the word "accessories".

29 COMMISSIONER GRANT: There would be very
30 many accessories to a tractor.

MR. WOTHERSPOON: Not very many. You buy



1 a complete unit. You do not buy it without a number
2 of items on it, and pay tax on the parts. You buy it
3 the way you want to use it, fully equipped for use,
4 and there is no tax on that when you buy it in the
5 after-market. The Department has always interpreted
6 "complete parts therefor" is what is applicable to this.

7 COMMISSIONER GRANT: In your submission,
8 that when
9 it would mean/a farmer would have to buy a part for his
10 tractor and he would pay a tax on it.

11 MR. WOTHERSPOON: Yes. After he has bought
12 a tractor something breaks down and he needs a new
13 battery, then a tax would be on that article.

14 COMMISSIONER WALLS: I would think our prob-
15 lem here is asking government to change it to the
16 way you want it, not as it is in the tariff schedule.

17 It also says, imports of tractors and parts
18 are tariff free.

19 Am I not correct in that?

20 MR. WOTHERSPOON: I believe so.

21 COMMISSIONER WALLS: If you change you have
22 a situation of where you would be collecting a sales
23 tax at a point of entry but not a tariff, and I think
24 it has been customary all through the Excise Tax Act
25 that where a tariff free product comes into the
26 country, in most cases they are listed then as sales
27 tax free.

28 MR. WOTHERSPOON: Perhaps I should have
29 gone into this with a finer knife. This depends upon
30 our third item as to what is done in connection with
taxation of imports.



1 COMMISSIONER WALLS: We will come to that.

2 MR. WOTHERSPOON: I had felt that probably
3 the answer on that one is, if that was accepted it would
4 cure the point you are raising.

5 COMMISSIONER WALLS: I agree. You mean if
6 the sales tax was moved forward to closer to the retail
7 level?

7 MR. WOTHERSPOON: Yes.

8 COMMISSIONER PERRY: Let us move forward
9 then.

10 We are very much impressed with the serious-
11 ness of this problem, the sales tax. We have had many
12 witnesses speak about it, and had several proposals
13 made. I think the purpose is quite clear. There may
14 be some of this section that needs further discussion
15 as to the nature of the problem itself.

16 COMMISSIONER WALLS: I notice you mention,
17 for instance, that one of the costs that the importer
18 is not faced with in assessing a sales tax in comparison
19 with the Canadian manufacturer is one of advertising.
20 Again the only parts products, that I have ever
21 seen advertised, that are ^{by} ~~are~~ handled by your membership would
22 be batteries, spark plugs and brake linings.

23 Really, your industry does not lend itself
24 to a high percentage of advertising costs, does it?

25 MR. WOTHERSPOON: It depends on the particular
26 article and also most of the advertising by our
27 Canadian parts manufacturers and this is the after-
28 market parts is done on a trade level. The ordinary person
29 does not see it. It is not something that is necessarily
30 advertised over a television, for example.



1 MR. WHELLANS: I would like to answer
2 that question. I do not think we could list in five
3 or ten minutes the number of parts that are advertised
4 by our people. I can assure you their advertising
5 budgets are very expensive. The advertising is in what
6 we call trade publications and not in consumer public-
7 ations.

8 COMMISSIONER WALLS: Would not that same
9 advertising be equally necessary in the original country
10 of origin for the products?

11 Many of your parts are coming from the
12 United States. Don't they spend an equal amount on
13 advertising to your member bodies or to the dealers?

14 MR. WOTHERSPOON: Perhaps I left a wrong
15 impression when I referred to advertising. I was re-
16 ferring to that as one of the examples, and I was
17 taking a situation of a manufacturer of private brand
18 articles for other people. For example, tires for
19 Eatons. They come in as ~~Eaton~~ia. Nobody knows who makes
20 them. That is the type of manufacture I was referring
21 to.

22 This is where a considerable portion of
23 competition can come from. The Canadian importer goes
24 down to the States, he finds somebody who makes air
25 filters for half a dozen companies. Nobody hears of
26 that manufacturer. He just makes them for other people
27 applying their trade mark to it. His cost factor
28 does not include any advertising in that situation
29 at all.

30 The Canadian man, the importer, then of



SUBMISSION OF
THE CANADIAN PEACE CONGRESS

Appearances: MR. HANS BLUMENFELD

COMMISSIONER PERRY: Thank you, Mr. Secretary.

Good morning, Mr. Blumenfeld.

MR. BLUMENFELD: Good morning.

COMMISSIONER PERRY: We have had the brief before us for some time and studied it. We would appreciate any further comments you wish to make on it.

I think I should point out at the outset that the greater part of it deals with what is substantially an aspect of expenditure rather than taxation and, while any expenditure does have tax implications, we so far have restricted our discussions to tax questions as such. In that light I would suggest that a large part of the brief does not really fall within your terms of reference.

However, with that preliminary caution, I would invite you to make any further remarks you wish, if you want to.

MR. BLUMENFELD: Thank you, Mr. Chairman.

The brief, as you know, makes two points. Firstly, we feel that the Canadian Peace Congress is entitled to tax exemption for contributions. The Canadian Peace Congress is a charitable organization and relies entirely on voluntary contributions from Canadians.

As to the second point, we are also aware that this falls somewhat beyond your normal terms of reference.



1 Then you apply the sales tax and you broaden
2 this gap. This is what we object to. It is the subsidy
3 that comes as a result of being on what is supposed
4 to be neutral tax.

5 COMMISSIONER WALLS: Presuming that the
6 disadvantage is to the manufacturer -- and we have had
7 quite a few objections in this regard placed before
8 us -- you have already agreed this would all be solved,
9 of course, if the sales tax was moved forward to the
10 retail level?

11 MR. WOTHERSPOON: Yes.

12 COMMISSIONER WALLS: Would it all be solved
13 if it were moved forward also to the wholesale level --
14 that is, on the billing to the people who are immediately
15 before the consumer?

16 MR. WOTHERSPOON: Yes, this would be on the
17 wholesaler, and presumably a "notional" wholesaler
18 when it was the retailer who bought. Yes, I think it
19 would be answered there.

20 It is just that I believe it needs quite
21 a study by the economists and departmental officials
22 as to the effect as to whether you run into insurmount-
23 able administrative problems in doing it. But I do
24 believe this would answer it.

25 COMMISSIONER PERRY: I was encouraged to
26 see that you did concede there were some administrative
27 problems involved even in your proposal. I think they
28 would be quite substantial.

29 I can assure you too that our fairly large
30 staff is making studies of all aspects of modern tax-



ation.

That seems to complete the points that you have raised in your brief. Is there anything further you would like to submit, Mr. Wotherspoon?

MR. WOTHERSPOON: We have nothing else,
except to thank you very much for your patience and
interest.

COMMISSIONER PERRY: Thank you for coming.
We have learned something further from your presentation.
Thank you.

We will now adjourn for ten minutes until the next brief.

---Short Recess.

COMMISSIONER PERRY: We will proceed,
Mr. Secretary.

THE SECRETARY: Mr. Chairman, the second brief this morning is being presented by the Canadian Peace Congress. Dr. James G. Endicott, the Chairman, was to have been here this morning, but he is in Europe and Mr. Hans Blumenfeld, a member of the national executive of the Congress, is here in his stead to speak to the brief.

I would like to enter this brief into the record as Exhibit 270.

---EXHIBIT NO. 270: Brief submitted by the
Canadian Peace Congress



SUBMISSION OF
THE CANADIAN PEACE CONGRESS

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1 The point we want to make is that in our
2 opinion the problem of taxation is not solvable as long
3 as almost 5 per cent of our gross national product
4 goes for the unproductive purpose of defence prepar-
5 ations.

6 Any taxation will ease up developments and
7 technical
8 slow down/progress, which will lead to a lowering of
9 the level of living, which in turn, under our conditions,
10 means that we will lose even more than at present
11 highly trained and qualified people who are attracted
12 by the higher level of living south of the border.

13 As a result of this any taxation which
14 tries to cover this 5 per cent deficit inevitably will
15 reduce our total national product proportionately and
16 that will make the further levying of taxes even more
17 difficult. We inevitably are engaged in a vicious
18 circle as long as we have to carry this excessive
19 burden of devoting almost 5 per cent of our national
20 income to unproductive purposes, which does not increase
21 our productivity. Consequently it does not increase
22 our ability to pay tax.

23 It is from this point of view that we
24 feel that our presentation is relevant to the subject
25 of your Commission.

26 COMMISSIONER PERRY: I think we would have
27 to agree without argument that it is government expend-
28 iture which gives rise to government taxation and
29 if one could abolish the expenditure or part of it,
30 one could abolish all or part of taxation.

 However, we have not felt it was in our



1 sphere, nor have we been directed to examine the quality
2 and quantity of government expenditure. Therefore I
3 think we must limit ourselves to the point of taxation
4 which you do raise here, which is the status of the
5 Canadian Peace Congress for purposes of charitable don-
6 ations.

7 Could you tell us a little bit more about
8 the organization and constitution of the Congress as
9 such?

10 MR. BLUMENFELD: As the Congress is not
11 a membership organization, it has an executive board
12 and it has local organizations. It is supported by
13 a number of individuals and organizations who more or
14 less regularly contribute to its existence.

15 Its work consists primarily of education
16 for peace and putting before the Canadian people peaceful
17 alternatives to the present course of reliance on
18 war deterrents.

19 COMMISSIONER WALLS: Are you tied up with
20 similar organizations in other countries?

21 MR. BLUMENFELD: We are part of the World
22 Congress -- affiliated with the World Congress for
23 Peace, yes.

24 COMMISSIONER PERRY: Where is the head office?

25 MR. BLUMENFELD: Vienna.

26 COMMISSIONER GRANT: Does your organization
27 exist in the United States?

28 MR. BLUMENFELD: I am not sure if it exists
29 in the United States individually. It exists in Great
30 Britain and France, West Germany and Scandanavian countries.



1 I am not quite sure whether there is an organization
2 in the States.

3 COMMISSIONER PERRY: Are there individual
4 members of the Congress itself, or is it simply an
5 association of other organizations?

6 MR. BLUMENFELD: No. There are individual
7 members of local organizations, but Toronto is the
8 station for peace of which I am a member. There are
9 others in Montreal, Winnipeg and most major Canadian
10 cities.

11 COMMISSIONER BEAUVAIS: I would like to
12 know the nature of your work.

13 MR. BLUMENFELD: I beg your pardon.

14 COMMISSIONER BEAUVAIS: You have some funds
15 arising from contributions and you apply those funds
16 towards what kind of work?

17 MR. BLUMENFELD: For publications, for
18 hiring halls, for meetings and lectures and for trav-
19 elling expenses, mainly for the President from Germany;
20 also for printing.

21 COMMISSIONER GRANT: Have you any of your
22 publications with you?

23 MR. BLUMENFELD: No I do not have them with
24 me, but I would be glad to submit any of them.

25 COMMISSIONER GRANT: Would you?

26 COMMISSIONER MILNE: Possibly I might ask
27 you this question, Mr. Blumenfeld. You have mentioned
28 in the brief -- at least, Dr. Endicott has -- and you
29 have also mentioned it this morning in your summary,
30 that your Canadian Congress has its support not through



1 memberships but from individuals and groups who make
2 voluntary contributions.

3 MR. BLUMENFELD: That is right.

4 COMMISSIONER MILNE: I would not expect that
5 you would be able to tell us an exact amount, but since
6 you do raise the point that you would like to be con-
7 sidered a charitable organization, I was wondering to
8 what extent this sum would mean. What would be a reason-
9 able amount to assume that you receive as voluntary
10 contributions in a year from individuals and groups?

11 MR. BLUMENFELD: I should have the budget.
12 I would say this probably would range over about \$10,000.00
13 which includes contributions to the local organizations.
14 There are a lot of organizations in Montreal and so on.
15 Yes.

16 COMMISSIONER PERRY: I suppose the most ob-
17 vious question to ask next is whether you have applied
18 to be recognized as a charitable organization?

19 MR. BLUMENFELD: Yes, on several occasions
20 there have been applications made and they have been
21 refused.

22 COMMISSIONER WALLS: What reason was given
23 for the refusal? There are about five questions that
24 are asked on the T-511 Form that have a bearing on
25 whether you are granted the status of being considered
26 a charitable organization. Did they advise you on
27 what basis you have been rejected?

28 MR. BLUMENFELD: I am not informed about
29 that, I am sorry. Simply the point was that it was not
30 a charitable organization, but I am not completely in-



1 formed on this aspect.

2 COMMISSIONER PERRY: Mr. Blumenfeld, I think
3 we understand your problem, your difficulty. As you
4 know, this is an organization dealing with general
5 issues of taxation and certainly it is not within our
6 competence to recommend that the Canadian Peace Con-
7 gress have eligibility. But this does fall into one
8 of the general questions we are examining and we can
9 assure you your presentation will be considered in the
10 light of this generalization.

11 We have no further questions here. Is
12 there any further comment you would like to make?

13 MR. BLUMENFELD: No. Thank you, Mr.
14 Chairman, for your attention.

15 I might bring out that while I am completely
16 aware that dealing with expenditure is not within your
17 terms of reference, it might not conceivably be entirely
18 without your terms of reference to say that you are
19 faced with an insoluble dilemma as long as this burden
20 of expenditure exists for unproductive purposes.

21 Thank you very much.

22 COMMISSIONER PERRY: Thank you.

23
24 THE SECRETARY: I have two briefs I would
25 like to enter into the record, Mr. Chairman. The first
26 is a brief being presented by Professor E. C. Harris
27 and three graduate students of the law school of Dalhousie
28 University.

29 The three law students are Mr. R. F.
30 Lindsay, Mr. J. M. MacGowan and Mr. T. W. Somerville.



1 This brief is being entered as Exhibit 271.

2
3 ---EXHIBIT NO. 271: Brief submitted on behalf of the
4 law school of Dalhousie University.

5 The next exhibit is from Mr. James Thachuk
6 of Barrhead, Alberta, which was received on October
7 7th. This is being entered into the record as Exhibit
8 272.

9 ---EXHIBIT NO. 272: Brief submitted by Mr. James
10 Thachuk of Barrhead, Alberta.

11 That is all this morning, Mr. Chairman.

12 COMMISSIONER PERRY: We will rise until
13 9:30 on Monday morning.

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